

BUSINESS REPORT

**MONTANA HOUSE OF REPRESENTATIVES
61st LEGISLATURE - REGULAR SESSION**

**HOUSE JOINT APPROPRIATIONS SUBCOMMITTEE ON LONG-RANGE PLANNING
COMMITTEE**

Date: Wednesday, February 4, 2009
Place: Capitol

Time: 8:00 am
Room: 350

BILLS and RESOLUTIONS HEARD:

Prefix (HB, HR, HJR, SB, SR, or SJR) and number. Add Postponed (PP) when appropriate:

HB 10 _____

EXECUTIVE ACTION TAKEN:

Prefix (HB, HR, HJR, SB, SR, or SJR) and number. Enter P(pass) F(failed) DPAA (do pass as amended) BC(be concurred in) BCAA (be concurred in as amended):

None _____

COMMENTS:



REP. Dave Kasten, Chairman

DATE: Feb 4, 09

[illegible]

**Montana House of Representatives
Visitors Register**

LONG RANGE PLANNING COMMITTEE

Date 2-4-09

Bill No. HB 10 Sponsor(s) ^{Rep} Wiseman

PLEASE PRINT Name and Address	PLEASE PRINT Representing	PLEASE PRINT Support	PLEASE PRINT Oppose	PLEASE PRINT Inf.
Dick Clark	DOA/ITSD	✓		
Michael Sepp	Northrop Grumman	✓		✓
JAMES MCCLUDKE-I	ASSURE IT			✓
Jeff Branst	D&A/ITSD	✓		
George Gupston	Western Intergov Comm Council	✓		
BUTCH HUSEBY	MHP	✓		
Ken Brunk	IM Project	✓		
John Waisl	Sheriff Buff SB	✓		
FRANK SMITH	IM PROJECT - SCMIC	✓		
Bill FLEINER	INTEROPERABILITY MT TR: County Consortium	✓		
LARRY IRWIN	M.H.P.	✓		
PAUL DEXTRAC	IM	✓		
Scott Bedford	DoA	✓		
ALAN MICHAELS	IM PROJECT CHAIR	✓		
RON BALDWIN	DPHHS	✓		
Dan Forbes	DPHHS	✓		
Shirley L. Vukasin	DPHHS	✓		

Please leave prepared testimony with Secretary. Witness Statement forms are available if you care to submit written testimony.

**Montana House of Representatives
Visitors Register**

LONG RANGE PLANNING COMMITTEE

Date Feb 4, 69

Bill No. 10 Sponsor(s) Rep. W. Isaman

PLEASE PRINT Name and Address	PLEASE PRINT Representing	PLEASE PRINT Support	PLEASE PRINT Oppose	PLEASE PRINT Inf.
Diane Shepard	DOJ/CSD	✓		
Rep. Bill McChesney	HD 40 MILES CITY	✓		
STAN LANEY	MILES CITY CHAMBER	✓		
Michael Korn	MT. FULT	✓		
Joe Brennemur	Flotard Co/IMPD	✓		
Augus Manner	LAO			✓
Mike Boyer	DOA/ITSD	✓		
Mike Foster	WMH & all Catholic hosp	✓		
Duane Preshinger	DPHHS	✓		
Laurie Lemson	DPHHS	✓		
Mary Dalton	DPHHS	✓		
Louise Olson	CSED	✓		

Please leave prepared testimony with Secretary. Witness Statement forms are available if you care to submit written testimony.

LONG-RANGE PLANNING

Section F

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

-----Agencies-----

Long-Range Building Program	Renewable Resource Grant & Loan Program
State Building Energy Conservation	Reclamation & Development Grant Program
Long-Range Information Technology Program	Cultural and Aesthetic Grant Program
Treasure State Endowment Program	Quality School Facilities Program
Treasure State Endowment Regional Water System Program	

-----Committee Members-----

House

Representative Dave Kasten (Chair)
Representative Dennis Getz
Representative Walter McNutt
Representative Jon Sesso

Senate

Senator Gregory Barkus (Vice Chair)
Senator John Brueggeman
Senator Mike Cooney
Senator Carol Williams

-----Fiscal Division Staff-----

Catherine Duncan

LONG-RANGE BUILDING PROGRAM

PROGRAM DESCRIPTION

In 1963, the legislature enacted the Long-Range Building Program (LRBP) to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The program, as established in Title 17, Chapter 7, part 2, MCA, was developed in order to present a single, comprehensive, and prioritized plan for allocating state resources for the purpose of capital construction and repair of state-owned facilities. Historically, the LRBP has been funded with a combination of cash accounts and bonding. The various types of cash accounts include state and federal special revenue funds, other funds (such as university and private funds), and long-range building program account funds.

LFD COMMENT

The LRBP program, over time, has changed from the original program vision. Now, the LRBP budget includes projects which are not construction, alteration, repair, and maintenance of state-owned buildings and grounds. For example, for a number of years the LRBP has included projects for the Department of Fish, Wildlife, and Parks (FWP) that fund several grant programs. As seen in the Future Fisheries and Grant Programs/Federal Projects, these projects differ from the usual LRBP projects because they are programs that provide grant funds to private individuals and communities for capital projects on non-state owned lands. Another unusual project that has been included in LRBP in recent biennia is the Department of Transportation (DOT) project titled, U.S. Highway 93 Projects. The Highway 93 project differs from the original vision because it is highway capital construction, rather than the construction, major maintenance, or acquisition of state-owned buildings and lands. In the 2011 biennium, the LRBP will again be changed with the inclusion of State Building Energy Conservation Program (SBECP) projects. While this program is the same in purpose, major capital maintenance, it is typically not included as a component of the LRBP.

Figure 1 summarizes capital project appropriations for each biennium since 1999, along with the executive request for the 2011 biennium (R).

Long-Range Building Program Capital Projects Appropriations by Fund Type and Biennium								
Biennium	LRBP Cash	Other State Funds	State Special	Federal Special	Authority Only	(2)	Total LRBP Cash Program	Total LRBP G.O. Bonding Program
1999	\$9,159,658		\$24,058,107	\$15,092,557	\$30,013,619		\$78,323,941	\$43,319,315
2001	7,515,000	170,000 (1)	22,204,804	39,236,497	46,495,000		115,621,301	33,403,750
2003	5,489,660		20,420,275	15,800,000	39,105,080		80,815,015	25,025,286
2005	3,281,500		24,044,460	11,319,212	41,095,000		79,740,172	
2007	35,438,075	500,000 (3)	26,945,974 (4)	19,984,000	139,697,500		222,565,549	53,100,000 (5)
2009	139,676,000	18,000,000 (6)	51,947,160 (7)	48,178,978	46,600,000		304,402,138	
2011R	22,565,000	15,357,000 (8)	50,665,000 (7)	9,435,000	15,050,000		113,072,000	

(1) General Fund
 (2) Projects that require authority only to use higher education funds, proprietary funds, and General Service internal service funds, appropriations are not required
 (3) Capital Land Grant Funds
 (4) Excludes the HB 5 appropriation of \$133.8 million for Highway 93 construction projects (this is not a LRBP project)
 (5) Excludes the HB 540 bond authorization of \$19.5 million for the St. Mary's Water Project and the Ft. Belknap Water Compact (these are not a LRBP project)
 (6) Includes capital land grant (\$4 million), FWP capital projects (\$10 million), and DOC proprietary funds (\$293,000)
 (7) Includes an appropriation for Highway 93 construction projects (this is not a LRBP project)
 (8) Includes FWP capital projects funds (\$2 million) and SBECP capital projects funds (\$21.5 million)

Figure 1

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the Long-Range Building Program (LRBP) budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the LRBP was reduced by \$28.0 million, which would directly affect the planned general fund one-time only transfer to the LRBP. The reduction represents a 20.0 percent reduction of total funds and a 32.7 percent reduction of LRBP capital project funds from the first executive budget. In Figure 2, reduced and eliminated projects are designated with a "®" following the project name.

Long-Range Building Program - Cash Projects								
Executive Recommendation - 2011 Biennium								
Executive Recommendations - Cash Projects								
Rank	Project	Capital Project Funds			Executive Recommendations - Cash Projects			
		LRBP	FWP	SBECP	State Special	Fed Special	Authorization	Total
Department of Administration								
3	Renovation & Energy Improvements, State Liquor Warehouse			\$460,000			\$1,750,000	\$2,210,000
4	Mechanical & Energy Projects, Capitol Complex			1,533,000			1,600,000	3,133,000
10	SW - Energy Related Deferred Maintenance ®	\$3,150,000						3,150,000
13	SW - Cabinet Agency Energy Projects ®			5,525,000				5,525,000
15	SW - Spending Authority, Utility Energy Conservation Funds						2,000,000	2,000,000
16	SW - Hazardous Materials Abatement	400,000						400,000
17	SW - Roof Repairs & Replacements	1,310,000				\$700,000		2,010,000
18	Elevator & ADA Modifications, Capitol Complex						1,450,000	1,450,000
19	SW - Repair/Preserve Building Envelopes	1,500,000						1,500,000
20	SW - Code Deferred Maintenance	2,000,000						2,000,000
23	Infrastructure Repairs, State Capitol	500,000					300,000	800,000
25	SW - Campus Infrastructure	1,000,000						1,000,000
28	Parking Lot Upgrades, Capitol Complex						250,000	250,000
31	SW - Upgrade Fire Protection Systems	800,000						800,000
37	SW - Campus Master Planning	200,000			\$100,000		200,000	500,000
Department of Agriculture								
30	Renovation & Energy Upgrades, State Grain Lab	525,000						525,000
Department of Commerce								
24	Historic Preservation & Supporting Improvements, MHC Statewide ®	750,000						750,000
Department of Corrections								
2	Energy Conservation Improvements, DOC	1,260,000		2,620,000			500,000	4,380,000
8	Alternative Energy-Biomass Boiler, MSP			740,000		250,000		990,000
29	Emergency Power System, MSP	500,000						500,000
34	Renovate Low Support, MSP	1,660,000						1,660,000
38	New Building for Youth Transition Center	1,310,000						1,310,000
39	Improve Food Production, DOC	300,000						300,000
Department of Military Affairs								
5	Energy Consumption Improvements, DMA			265,000		885,000		1,150,000
26	Storm Water Improvements/Infrastructure, Phase 3, FT Harrison					1,600,000		1,600,000
27	Paving Parking Lots, DMA Statewide					100,000		200,000
40	Federal Spending Authority					2,000,000		2,000,000
Department of Fish, Wildlife, and Parks								
45	Future Fisheries				1,150,000			1,150,000
46	Hatchery Maintenance				575,000	275,000		850,000
47	Community Fishing Ponds				50,000			50,000
Sub-Total:		\$17,265,000	\$0	\$11,143,000	\$1,875,000	\$5,810,000	\$8,050,000	\$44,143,000

Figure 2 (continued on next page)

Long-Range Building Program - Cash Projects Executive Recommendation - 2011 Biennium									
Rank	Project	Capital Project Funds			Executive Recommendations - Cash Projects				
		LRBP	FWP	SBCEP	State Special	Fed Special	Authorization	Total	
	Balance:	\$17,265,000	\$0	\$11,143,000	\$1,875,000	\$5,810,000	\$8,050,000	\$44,143,000	
Department of Fish, Wildlife, and Parks (cont.)									
48	Clearwater Fish Barrier				825,000	25,000		850,000	
49	Habitat Montana				8,110,000			8,110,000	
50	Upland Game Bird Program				1,525,000			1,525,000	
51	Wildlife Habitat Maintenance				1,010,000			1,010,000	
52	Migratory Bird Stamp Program				620,000			620,000	
53	Bighorn Sheep				150,000			150,000	
54	Hunting Access				2,500,000			2,500,000	
55	Access Montana - FWP Capital Projects Fund							2,000,000	
56	Parks Program		2,000,000		3,040,000	2,000,000		5,040,000	
57	FAS Acquisition				500,000	100,000		600,000	
58	FAS Site Protections				900,000			900,000	
59	Grant Programs/Federal Projects				320,000	1,500,000		1,820,000	
60	Admin Facilities Repair & Maint				1,390,000			1,390,000	
Department of Natural Resource and Conservation									
14	Energy/Major Repairs & Small Projects, DNRC Statewide	1,000,000			0			1,000,000	
41	Increase Appropriation Oil & Gas Building, Billings ®				0			0	
Department of Public Health and Human Services									
6	Montana Veterans' Home Improvements, Phase 2 ®	0		0	0			0	
9	MMHNGC Improvements, Phase 2 ®			1,589,000				1,589,000	
11	DPHHS Energy Projects, Statewide				0			0	
33	Replace Nurse Call System, EMVH ®				0			0	
35	Improve Medical Services, MDC	450,000			0			450,000	
36	Renovate Superintendent's Residence, MVH ®				0			0	
Department of Transportation									
21	Statewide Maintenance, Repair & Small Projects				2,625,000			2,625,000	
42	Equipment Storage Buildings, Statewide				1,175,000			1,175,000	
43	US Highway 93 Projects				24,100,000			24,100,000	
Montana School for the Deaf and Blind									
7	Energy & Facility Improvements, MSDB	250,000		25,000				275,000	
Montana University System									
1	Energy Conservation Improvements, MUS ®	0		0			0	0	
12	Energy Projects at Community Colleges, Statewide			600,000				600,000	
22	Code/Deferred Maintenance, MUS ®	3,600,000					1,000,000	4,600,000	
32	Renovate Hagener Science Center, MSU-N ®	0					6,000,000	6,000,000	
44	General Spending authority, UM								
Total Cash Program:		\$22,565,000	\$2,000,000	\$13,357,000	\$50,665,000	\$9,435,000	\$15,050,000	\$113,072,000	

® Reflects Dec. 15, 2008 executive budget revisions project reductions or eliminations

Figure 2 (continued from previous page)

The 2011 biennium executive request for the LRBP is focused on energy conservation improvements across the state. The energy conservation component of the LRBP request includes an all funds total of \$56.5 million in energy conservation projects, or 23.5 percent. Many of the energy conservation projects double as deferred or major maintenance projects. Keeping in mind that there is some duplication with the energy conservation projects, deferred or major maintenance projects are \$59.4 million, or 52.5 percent of the all funds budget. The executive proposal includes no LRBP bonded projects for the 2009 biennium. Instead, the executive proposes extensive use of one-time general funds in the 2011 biennium LRBP budget. The cash program is reduced by 62.9 percent from the historic level of funding in the 2009 biennium. Funding, as seen in the table above, includes:

- \$17.3 million long range building program projects funding (LRBP)
- \$5.2 million general fund (one-time transfers) (LRBP)
- \$13.4 million "other" capital project funds (FWP and SBECF projects, funded with general fund OTO)
- \$50.7 million state special revenue (includes \$24.1 million for Highway 93 construction projects)
- \$9.4 million federal special revenue
- \$15.1 million in authority only (appropriations are not required)

LRBP CASH PROGRAM

Figure 2 shows the projects recommended by the executive, listed by agency. The listed projects will be requested in the LRBP cash program bill, typically designated as HB 5, and are numbered to indicate priority.

LFD COMMENT

LRBP Budget Changes: The LRBP budget analysis, as presented in this section of the LFD Budget Analysis, contains project totals that differ from the executive budget. The difference is based on a \$4.0 million funding reduction made to the *Energy Related Deferred Maintenance* project. The change, requested by the Architecture and Engineering Division of the Department of Administration (A&E) and expected to be included in the LRBP bill, reduced \$1 million from the state special funds list, \$1 million from the federal special funds list, and \$2 million from the "other funds" list (as shown in the executive budget). Although other changes were made to the presentation of the LRBP project information, total appropriations were only reduced by \$4.0 million.

There are other differences between the LFD and executive presentation of the LRBP budget, as shown in Figure 2, above. The LFD has historically made these changes to provide more information to the legislature. Differences include:

- Projects sorted by agency – To provide an agency specific view of the requests
- Changed dollar placement of FWP, Access Montana project – To show as a capital funds project
- Changed dollar placement of Department of Military Affairs (DMA), Federal Spending Authority project – This project is federal funding which requires appropriation
- Disaggregation of the SBECF projects – To allow a total quantification of the SBECF projects
- Provision of an authorization column – To show projects that do not require appropriation
- Elimination of the "Other" column – Values included in the SBECF and Authorization columns

Additional Changes: Additional changes were made in the executive budget revision of Dec. 15, 2008. The new reductions, as seen in Figure 2, amounted to a total of \$28.0 million and include:

- \$19,100,000 – MUS-Energy Conservation Improvements (#1), Eliminated
- \$1,200,000 – DPHHS-MT Veterans Home Improvements, Phase 2 (#6), Eliminated
- \$543,000 – DPHHS-MMHNCC Improvements, Phase 2 (#9), Eliminated
- \$350,000 – SW-Reduction of the Energy Related Deferred Maintenance Projects (#10), Reduced
- \$400,000 – MUS-Code/Deferred Maintenance (#22), Reduced
- \$650,000 – DCOM-Historic Preservation & Supporting Improvements (#24), Reduced
- \$2,150,000 – Renovate Hagener Science Center, MSU N (#32), Eliminated
- \$144,000 – DPHHS-Replace Nurse Call System, EMVH (#33), Eliminated
- \$180,000 – DPHHS-Renovate Superintendent's Residence, MVH (#36), Eliminated
- \$1,300,000 – DNRC-Increase Appropriation for Oil & Gas Building, Billings (#41), Eliminated

**LFD
COMMENT
(continued)**

Another change included in the executive budget revision and seen in Figure 2 is a reduction to the SBECP budget. For more information on the SBECP reduction, refer to the SBECP section of this report, beginning on page F-8.

- \$2,000,000 – Statewide-Cabinet Agency Energy Projects (#13), Reduced

**LFD
COMMENT**

Including the State Building Energy Conservation Program (SBECP): In the 2011 biennium, appropriations of \$13.4 million for the SBECP have been included in the LRBP executive budget proposal. The SBECP capital projects budget was included in the LRBP budget because of the interwoven nature between many of the LRBP maintenance and SBECP energy conservation capital projects. There are both pros and cons related to including the SBECP budget in the LRBP budget. The pros include the concept that combining the project appropriations would provide the legislature a more comprehensive picture of the cost of the capital projects. Additionally, because the LRBP and SBECP projects would be appropriated as one project and because in many cases the project cannot move forward without both the LRBP and SBECP appropriation components, there is reduced potential of unneeded appropriations should the legislature choose to eliminate one of the recommended projects from the list. The con is that the appropriation of the SBECP in the LRBP budget makes the LRBP budget appear \$13.4 million greater than it would have otherwise appeared.

**LFD
COMMENT**

Highway Project: The executive budget recommends a \$24.1 million appropriation for U.S. Highway 93 projects. This is the third time that the LRBP budget has included a major highway maintenance project for Highway 93. Including the 2011 appropriation of \$24.1 million, a total of \$183.9 million has been appropriated for Highway 93 projects in the LRBP budget. There are both pros and cons to appropriating the Highway 93 projects in the LRBP. The pro is the benefit achieved by appropriating major construction projects, including highway construction projects, in a capital projects bill. When designated as a capital project, the appropriation remains in effect until the project is complete (17-7-212, MCA), and the need for re-appropriation every two years, as required in the general appropriations act, is eliminated. There are two cons to appropriating a highway project in the capital projects bill. First, the cohesion attained by appropriating all the major highway projects in one piece of legislation is lost. Consequently, to adequately analyze the need for the project and related appropriations, one would need to analyze how the project fits into the entire highway construction budget. The second con is the impact the appropriation has on the appearance of the LRBP budget. This project represents 45.4 percent of total state special funding in the LRBP budget, 17 percent of the all funds LRBP budget, and makes the LRBP budget appear \$24.1 million greater than it would have otherwise appeared.

**LFD
COMMENT**

Presentation of LRBP Project Status: The Long-Range Planning Workgroup (LRPwg), a workgroup of the interim Legislative Finance Committee, developed a LRBP project status tracking document over the 2008-2009 interim. This document is intended to provide relevant information about the progress of LRBP projects in an easily understandable and brief document. The document includes all uncompleted projects from prior biennia and all those projects appropriated or authorized by the last legislature. The status document does not include projects which consist of numerous statewide projects. This document is available through the Legislative Fiscal Division and will be presented to the Long-Range Planning Subcommittee when it meets in January.

Funding – Cash Program

LRBP Cash Program Funding

Funding for the Long-Range Building Program comes from various sources including the long-range building program account, state special revenue funds, federal funds, and other funds (such as university funds, private funds, and capitol land grant funds). Although the LRBP fund does not typically represent the largest portion of funding for capital projects, the revenues allocated to this account represent the only specific commitment of state

funds for capital projects. In the 2011 biennium, the executive recommendation proposes a greater commitment to state building maintenance by including a one-time general fund transfer of \$5.2 million to the LRBP account.

The LRBP account revenues include a 2.6 percent distribution of cigarette tax revenue and 12.0 percent distribution of coal severance tax revenue. Other income includes LRBP interest earnings and supervisory fees paid to the Architecture and Engineering Division (A&E) of the Department of Administration.

Figure 3 shows the projected fund balance for the LRBP account for the 2011 biennium. As shown, approximately \$22.6 million is requested for cash program projects in the LRBP projects bill, leaving an estimated cash balance of \$200,208 at the end of the 2011 biennium. The fund balance estimate includes the proposed transfer of \$5.2 million in one-time only transfers. This estimated ending fund balance, as prepared by the LFD, is slightly higher than that shown in the executive budget, primarily because of higher cigarette tax and coal severance tax revenues estimates, as adopted by the Revenue and Transportation Interim Committee (RTIC).

Long-Range Building Program Fund (05007) Cash Balance Projection 2011 Biennium	
Estimated Beginning Cash Balance-(7/1/2009)	\$5,027,410
Revenue Projections ¹	
Cigarette Tax	\$4,255,000
Coal Severance Tax	11,325,000
Interest Earnings	3,093,171
Supervisory Fees	866,664
2011 Biennium Revenues	19,539,835
Expenditures	
Operating Costs-A & E Division ⁵	(3,980,628)
Debt Service-2003G ²	(2,646,207)
Debt Service-2005A ³	(1,705,202)
Funding Switch ⁴	1,330,000
Total Expenditures	(7,002,037)
Balance Available for Capital Projects	17,565,208
One Time General Fund Transfer ⁵	5,200,000
Total Available for Capitol Projects	22,765,208
Executive Proposals LRBP Cash Account ⁵	(22,565,000)
Estimated Ending Cash Balance - (6/30/2011)	\$200,208
¹ Based on RTIC revenue estimates	
² Refinance of 1996D issue	
³ Refinance portions of 1997B and 1999C issues	
⁴ Debt Service Funding Switch, 2001 legislative session	
⁵ Based on executive budget proposal	

Figure 3

General Fund OTO Transfers

According to information in the executive budget, there would be general fund one-time only (OTO) transfers for four separate purposes contained in the LRBP bill, HB 5. As shown in Figure 4, the transfers include:

- General fund OTO transfers of a total \$5.2 million to the LRBP. This transfer of funds would increase the funds available to the LRBP for major maintenance and deferred maintenance projects. The additional funds would also support the Governor's 20 x 10 Initiative; an effort to increase the energy efficiencies of state government agencies by 20 percent by the year 2010
- General fund OTO transfers of \$13.4 million to the SBECP. This transfer would provide the funding for energy conservation projects in state buildings. As in the case of the LRBP transfer, this transfer supports the Governor's 20 x 10 Initiative
- General fund OTO transfers of \$2.0 million for the Access Montana project. The project provides funds that are used to acquire Montana properties that will provide access to rivers and other waterways throughout the state. Figure 4 shows the general fund OTO transfers by fiscal year
- General fund OTO transfers of \$1.5 million for administration of the SBECP. While these funds will be transferred in the LRBP bill, HB 5, the funds will be appropriated in the general appropriations act (HB 2)

Long-Range Planning Program General Fund Summary: Proposed General Fund OTO Transfers (millions)			
Program	Fund	Transfers	
		FY 2010	FY 2011
Long-Range Building Program	05007	\$2.6	\$2.6
Fish, Wildlife, and Parks, Access Montana	05144	1.0	1.0
State Building Energy Conservation Program	05145	10.4	3.0
State Building Energy Conservation Program-Administration	02370	1.0	0.5
Total General Fund OTO Transfers:		\$15.0	\$7.1

Figure 4

**LFD
COMMENT**

LRBP Funding: While not readily apparent in the 2011 biennium, the LRBP continues to experience overall reduced revenues that could become a significant problem in the future. The LRBP cash program has been supported by distributions from cigarette tax for many years. Coal severance tax support was added to the LRBP to provide debt service payments on three bond issues and since has become increasingly important to the support of the program. These two revenue sources provide the greatest part of the funding for the LRBP cash program. However, the base of the cigarette tax is expected to continue to decline in future years, reducing the revenues expected in the LRBP program.

Since the early 1980's, LRBP account revenues have declined from an annual proportion of 1.74 percent to a current 0.5 percent of the annual building replacement value. A&E recommends that not less than 1 percent, or \$12.0 million, of building replacement value should be re-invested in state owned buildings annually for the deferred maintenance of Montana's \$1.2 billion of general fund supported state owned buildings (including the University System). The recommended 1 percent of building replacement value addresses construction needs beyond what would be considered typical operations and maintenance included in the operational budgets of the state agencies. LRBP revenues are expected to provide \$12.5 million for building and maintenance projects in the 2011 biennium. If the LRBP monies were entirely devoted to major maintenance projects, the state would only be funding a little over half of the estimated need.

Deferred maintenance occurs as necessary maintenance projects are postponed until a future date, typically as a result of funding issues. A backlog will occur when building maintenance is not adequately funded. The magnitude of the deferred maintenance backlog is highly speculative without formally surveying all agencies to quantify the needs. However, an analysis prepared by the Legislative Fiscal Division in FY 2006 projected the backlog to be approximately \$204 million. Given the results of that analysis, and in consideration of the many deferred maintenance projects funded in the 2009 biennium, a current estimate of the backlog would be around \$139 million. However, the backlog will continue to grow as the cost of deferred maintenance continues to increase, both as an issue of time (maintenance costs increase as buildings grow older and inflation increases costs in time) and as new buildings are added to the state's inventory.

The preferred method of managing the funding inadequacy of the LRBP and the growing deferred maintenance backlog has been to increase program funds with distributions from excess revenues in the general fund in the form of OTO transfers. In the 2007 biennium, OTO transfers to the LRBP directed to reduce the deferred maintenance backlog were \$30.1 million, in the 2009 biennium, \$66.5 million, and in the 2011 biennium, the recommended infusion of general fund for deferred maintenance is \$5.2 million. While this use of OTO funds helps to reduce the backlog and meet Montana's major building maintenance needs, it does not provide a solution for the heart of the problem, the inadequacy of on-going funding. Without a solution to the funding issue, the continued growth of the deferred maintenance backlog cannot be contained. The Long-Range Planning Subcommittee may wish to discuss solutions to the issue of funding inadequacy in the LRBP.

**LFD
COMMENT**

Transfer Contingency: As was the case in the 2009 LRBP budget, the 2011 biennium transfers of one-time only general fund monies would be conditioned on the size of the fund balance in the general fund. Information provided in the executive budget states that one-time only transfers would be contingent on an ending fund balance in the general fund of at least \$125 million, after consideration of the transfers. The 61st Legislature must keep in mind that should revenues not materialize as anticipated and transfers are reduced, the LRBP would be not have sufficient funds for all the projects. Because these projects are capital projects with appropriation authority that continues until the project is completed, a reduction of the planned transfers would either require new changes in project funding in future biennia, or future legislatures may need to eliminate appropriations. Additional questions are raised as a result of the contingent nature of the OTO transfers, for example:

- When would the determination to reduce transfers be made, and by whom?
- How will the reductions be made, pro-rata or whatever the executive believes is appropriate?
- If the fund balance drops below \$125 million, will the transfers be totally eliminated?

From a legislative perspective, the contingent nature of the OTO transfers is not good fiscal policy. If sufficient funds are not available to fund projects, the project appropriations should be eliminated. The legislature should not be delegating transfer authority to the executive without specific criteria specified in law. These guidelines should be designed to outline the directives the legislature wants to be followed. The Long-Range Planning subcommittee may wish discuss the transfer contingency in more detail.

STATE BUILDING ENERGY CONSERVATION PROGRAM

PROGRAM DESCRIPTION

The State Building Energy Conservation Program (SBECP), administered by the Department of Environmental Quality (DEQ), was established by the 1989 Legislature to reduce operating costs of state facilities by identifying and funding cost-effective energy efficiency improvement projects. Statutory authority is found in Title 90, Chapter 4, part 6, MCA. Energy efficiency improvements include projects such as:

- Replacing old, inefficient boilers
- Upgrading inefficient lighting
- Increasing ventilation system efficiency
- Insulating buildings
- Providing more effective temperature controls
- Upgrading water conservation systems

SBECP projects are designed so that energy savings exceed costs. The estimated savings of energy costs are used to reimburse the project costs and finance operational costs. Program recommendations encourage conservation measures which have a service life of at least 15 years. However, energy savings are expected to continue throughout the life of the project. To date, the program has completed 84 projects and currently has 7 projects in design and construction. Cumulative energy savings captured through FY 2008 totals over \$11 million.

Projects come to the SBECP in two ways: either directly to the program because of the energy saving benefits of the project, or in conjunction with projects planned under the Long Range Building Program. DEQ offers state agencies assistance in evaluating energy use and identifying energy conservation projects. Program engineers evaluate all projects proposed for the Long-Range Building Program (LRBP) administered by the state's Architecture and Engineering Division (A&E) to assess the energy savings potential on proposed remodeling projects. Projects with the potential for energy savings are funded through the SBECP, and are often jointly funded with the LRBP deferred maintenance funds.

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the State Building Energy Conservation Program (SBECP) budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for SBECP projects were reduced by \$10.1 million, which would directly affect the planned general fund one-time only transfer to the LRBP. The reduction represents a 43.2 percent reduction of projects. In Figure 5, reduced and eliminated projects are designated with a "®" following the project name.

The executive budget recommends using the program functions of the SBECP and the LRBP to facilitate the Governor's "20 x 10 Initiative". Consequently, the SBECP is recommended to be funded at the historic level of \$14.9 million. A general fund transfer of \$13.4 million is proposed to finance 11 SBECP project appropriations and an appropriation of \$1.5 million will be recommended in the general appropriations act (HB 2). This level of funding is almost four times the highest level of program funding, which occurred when the 59th Legislature appropriated \$3.8 million in bond proceeds for the program. However, significant investments in energy related facility improvements may be required for agencies to meet the goals of the 20 x 10 Initiative.

20 x 10 Initiative

In consideration of the significant increases in the cost of energy that occurred in 2007 and 2008, and in conjunction with his work with the Western Climate Initiative, Governor Schweitzer announced an initiative to increase energy efficiency in state government by 20 percent by the end of 2010. The "20 x 10 Initiative" calls on executive branch agencies to reduce energy use in buildings and operations. The initiative directs the DEQ and the Department of Administration to lead the 20 x 10 effort.

The SBECP is one of the primary means available to state agencies to reduce energy use and energy cost in buildings. The 20 x 10 initiative has spurred the interest of all state agencies, and there has been a rapid increase

State Building Energy Conservation Program Executive Recommendation - 2011 Biennium					
LRBP Rank	Project	Description	SBECP Cost	Annual Savings	Years to Total Cost Recovery
Department of Administration					
3	Renovation and Energy Improvements, State Liquor Warehouse		\$460,000	\$36,165	12.72
4	Mechanical & Energy Projects, and Controls, Capitol Complex				
	Aviation Support Building	Infrared heating and boiler replacement	\$157,039	\$13,154	11.94
	Capitol Complex Boiler Plant Building	Burner upgrade and interruptible supply	340,535	54,605	6.24
	Walt Sullivan Building	Replace chiller and steam boiler	138,384	11,592	11.94
	Justice Building	Air Conditioning Upgrade	29,176	2,444	11.94
	Lee Metcalf Building	Lighting upgrade and controls	106,211	8,897	11.94
	Cogswell Building	Chiller replacement	10,684	895	11.94
	DPHHS Building	Building controls	152,880	12,806	11.94
	FWP Building	Boiler replacement and VAV retrofit	63,390	5,310	11.94
	Scott Hart Building	Chiller replacement and ventilation	34,070	2,854	11.94
	Capitol Complex	Lost Opportunities and Commissioning	<u>500,631</u>	<u>41,930</u>	11.94
	Project Total:		\$1,533,000	\$154,487	9.92
13	Cabinet Agencies	Statewide Energy Projects			
	Residential Office Buildings 6th & 8th Avenues	New Furnaces and Envelope	\$24,000	\$1,600	15.00
	State Grain Lab Mechanical Upgrade	Upgrade mechanical controls and demand ventilation	10,000	800	12.50
	Reader's Alley and Miscellaneous Virginia City Buildings	Lighting and Heating Upgrades	36,000	2,400	15.00
	Hatchery	Energy Improvements Statewide	200,000	26,706	7.49
	Regional Headquarters, Billings	HVAC replacements, controls and lighting	95,355	6,357	15.00
	Regional Headquarters, Missoula	HVAC replacements, controls and lighting	24,000	1,600	15.00
	Regional Headquarters, Great Falls	HVAC replacements, controls and lighting	30,000	4,000	7.50
	Regional Headquarters, Kalispell	HVAC replacements, controls and lighting	65,505	4,367	15.00
	Butte Highway Patrol Heating & Envelope Improvements	New HVAC, Lighting and Envelope	10,500	700	15.00
	State Crime Lab	HVAC replacement and building wide controls	270,000	22,617	11.94
	Workforce Center, Missoula	Controls upgrade	7,500	500	15.00
	Workforce Center, Great Falls	Controls upgrade	86,880	5,792	15.00
	Workforce Center, Butte	Controls upgrade	18,000	1,200	15.00
	Workforce Center, Miles City	Controls upgrade	15,195	1,013	15.00
	Workforce Center, Bozeman	Controls upgrade	30,000	2,000	15.00
	Spurgin Road Complex	New pump frequency drives, lighting, furnace replacements	78,000	5,200	15.00
	Field Office Campuses Statewide	Furnaces, envelope improvements, lighting	601,000	31,000	19.39
	1227 11th Avenue	Retrocommission	48,000	3,200	15.00
	1300 11th Avenue	Replace HVAC System	58,500	3,900	15.00
	Administration Building	VAV retrofit and controls	60,000	22,400	2.68
	PE Complex	Lighting controls and domestic hot water improvements	70,280	5,857	12.00
	Helena HQ	VAV retrofit and lighting	669,000	75,000	8.92
	Helena Shop	Heat recovery new boilers and controls	258,330	42,205	6.12
	Billings	Heating System and lighting upgrades	300,000	25,130	11.94
	Bozeman	Heating System and lighting upgrades	250,000	20,942	11.94
	Missoula	Heating System and lighting upgrades	250,000	20,942	11.94
	Maintenance Shops Statewide	Unit heater replacement, lighting and envelope	1,000,000	83,767	11.94
	Cabinet Agencies ®	Lost Opportunities and Commissioning	<u>958,955</u>	<u>80,340</u>	11.94
	Project Total:		\$5,525,000	\$501,534	11.02
Department of Corrections					
2	Men's Prison Mechanical & Electrical Upgrades		\$2,620,000	\$219,468	11.94
8	Alternative Energy-Biomass Boiler		740,000	45,000	16.44
Department of Military Affairs					
5	Statewide Energy Conservation Improvements		\$265,000	\$17,667	15.00
Department of Public Health and Human Services					
6	Montana Veterans' Home Improvements, Phase 2 ®		\$0	\$0	
9	Montana Mental Health Nursing Center Improvements, Phase 2 ®		0	0	
11	Statewide Energy Projects				
	Warm Springs Boiler	Removal of old central boiler with smaller staged boilers	\$210,000	\$14,000	15.00
	Eastern Montana Veterans' Home	Kitchen Ventilation Improvements and Controls	418,776	32,220	13.00
	Montana Developmental Center	Energy Upgrades	349,724	39,498	8.85
	Lost Opportunities and Commissioning	Lost Opportunities and Commissioning	<u>610,500</u>	<u>51,108</u>	11.95
	Project Total:		\$1,589,000	\$136,826	11.61
Montana School For the Deaf and Blind					
7	Energy and Facility Improvements	Building envelope and lighting	\$25,000	\$1,666	15.01
Montana University System					
1	Energy Conservation Improvements, MUS ®		\$0	\$0	
12	Energy Projects at Community Colleges, Statewide		600,000	50,260	11.94
	SBECP Program Total:		\$13,357,000	\$1,163,073	11.48

® Reflects Dec. 15, 2008 executive budget revisions project reductions or eliminations

Figure 5

in the number of energy studies being conducted in preparation for additional investments in building energy efficiency. DEQ has contacted all state agencies to assess the needs for energy studies and will initiate about 50 energy studies in the current biennium. Projects from these studies would be proposed for funding in the 2009 Legislative Session, resulting in a much larger proposal for funding than ever before. The increase in size of the proposal for funding is timely because state natural gas costs increased by 51.4 percent in FY 2008 and high energy costs are expected through the upcoming biennium.

Figure 5 provides a list of the SBECF projects proposed in the executive budget. The table provides the LRBP rank (appropriations are included in the LRBP budget), the appropriation title and (in cases of appropriation requests made up of multiple small projects) specific project breakouts, a description of the project (where available), the cost of the project, the annual savings expected through the project, and the number of years it will take for the agencies to reimburse the SBECF for the project. When all projects are complete, the savings are estimated to be approximately \$1.2 per year and the average agency project reimbursement is approximately 12 years.

FUNDING

The executive budget recommends total SBECF related transfers of \$14.9 million, provided as two separate transfers. The first proposed transfer will be \$13.4 million (\$10.4 million in FY 2010 and \$3.0 million in FY 2011) for projects. The transfer would be deposited in a SBECF capital projects fund. The second proposed transfer will be \$1.5 million (\$1.0 million in FY 2010 and \$0.5 million in FY 2011) for operations, and would be transferred into a SBECF state special revenue fund and appropriated in the general appropriations act (HB 2).

LFD COMMENT

Program Changes

Redeveloped Program Specs: In past years, bond proceeds have funded the SBECF. Agencies reimbursed the SBECF with the energy savings estimated to be realized in their projects. The SBECF then used the energy savings reimbursements to pay the debt service on the bond and to pay the DEQ administrative costs. If the savings exceeded the cost of the debt service and administrative expenses, then any excess was “swept” into the Long-Range Building Program to fund major maintenance in state buildings.

In the 2011 biennium, the executive budget proposes a redevelopment of the SBECF. With an infusion of \$14.9 million in general fund OTO dollars, the program would be developed as a revolving project program. In the first biennium of the redeveloped program, projects would be funded with \$13.4 million of the general funds. The agencies will reimburse the SBECF for the cost of the project, along with an annual fee of 3% against the outstanding principle. Reimbursements for project costs will fund new energy conservation projects and program administration.

Program Ties: The executive recommendation suggests including the appropriations for the SBECF in LRBP budget because of the interwoven nature inherent in many of the LRBP maintenance and SBECF energy conservation capital projects. The LRBP provides design and construction services for the capital improvement projects, including the energy projects authorized through the SBECF. SBECF staff engineers review LRBP proposals for potential energy conservation projects. Including energy improvements as part of LRBP deferred maintenance projects decreases the cost of the energy project. Similarly, energy dollars can make facility improvement projects financially feasible. The majority of SBECF projects funded in the past four years have also included LRBP funds.

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Administrative Fees: The DEQ will propose a statutory change to provide an annual administrative fee of 3 percent to support the costs of the SBECF. DEQ states that a similar fee was previously charged as a project cost and paid with bond proceeds (when the program was funded with bonds). DEQ proposes to calculate the fee similar to an interest rate on debt, with the 3 percent fee imposed annually on the remaining balance after the annual reimbursement. When the entire project budget of \$13.4 million is analyzed for the effects of the 3 percent annual fee and at an expected savings reimbursement of \$1.2 million per year, agencies will pay total fees of approximately \$2.4 million over the 12 year period, resulting in an additional cost to agencies of over 18 percent of the projects costs.

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Lack of Consistency: The proposed transfer of OTO general fund transfers for the SBECF (20 x 10 Initiative) are presented with different amounts in different parts of the executive budget. The overview of the executive budget (page 2, in the table titled General Fund One-Time Only (OTO) Recommendations) provides an appropriation for the Long-Range Building Program, Governor's 20 x 10 Initiative, of \$25.0 million. In the following detail of the OTO appropriations (page 4, Long Range Building Program (HB 5)), the narrative provides information of transfers of \$41.15 million, \$23.5 million to reduce energy consumption (projects only). However, in the SBECF section of Section F of the executive budget (page F-20), the narrative mentions a transfer of \$24.0 million, of which \$22.5 million will be used for project appropriations and \$1.5 million will be used for operational costs. Ultimately, the final funding for projects was reduced in the Dec. 15, 2008 revision of the executive budget. This analysis of the executive budget is based on total general fund OTO transfers to the SBECF of \$14.9 million, \$13.4 million for SBECF projects and \$1.5 million for DEQ administrative costs.

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Measure of Success: In the past, some legislators have questioned the verification of actual energy savings resulting from SBECF projects. Given the extensive conservation related capital investment proposed in the executive budget, verification of actual energy savings and efficiencies will become a more significant issue. With regards to the 20 x 10 Initiative, some anticipated questions might include:

- How will agencies show that they have met the energy conservation goals of the program?
- How will agencies determine if the project savings are greater than the reimbursements they will be required to make to the program?
- How will the legislature know that the appropriation of \$13.4 million dollars for energy related projects has effected positive change?

One recommended solution that could clear up concerns and help answer the questions raised above would be the development of a reporting process. Reports could be developed with information provided by the new DEQ energy monitoring system, EnergyCAP software purchased in FY 2008, and through formal energy audits. It is critical to know the answers to the questions raised above. Without the answers to these questions, the legislature will never know that this significant appropriation of state dollars has met the goal of energy reduction. Providing the results to the executive, agencies, and legislature could answer the questions raised above and reduce skepticism about the actual energy savings which result from these capital projects. The Long-Range Planning Subcommittee may wish to discuss the need for a reporting process related to the appropriations for the SBECF.

Meeting the Goal of 20 x 10: The Governor's 20 x 10 Initiative proposes increasing energy efficiency by 20 percent by 2010. The Governor's initiative would measure the gains in energy efficiencies in reductions in British Thermal Units (BTU's) consumed. However, a 20 percent reduction in BTU's does not necessarily equate to a 20 percent reduction in costs.

In FY 2008, total energy costs for state, as recorded in the state accounting system (including electricity, natural gas, fuel oil, propane, and coal), was \$39.2 million. State energy costs increased by 39.2 percent over the total energy costs of FY 2007, \$28.2 million. Energy inflation and the addition of new state space make the calculation of energy savings based on expenditures complex. SBECF projects, as recommended in the executive

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(continued)**

budget with savings measured at \$1.2 million annually, will only reduce the state government consumption of energy by 4.3 percent (calculated against the FY 2008 energy costs), far from the 20 percent goal of the initiative. While "efficiencies" are expected to be gained from sources other than capital improvements, such as changes in employee behaviors and agency modifications (temperature and lighting changes), the capital improvements component was expected to have the greatest effect, and a dollar savings of 4.3 percent appears inadequate.

In the function of this fiscal analysis by the Legislative Fiscal Division (LFD), SBECF savings are provided to the office in dollars and cents. Additionally, the data on BTU/dollars/years for each of the energy sources used in state government is not readily available in the LFD office. The Long-Range Planning Subcommittee may wish to request that DEQ provide energy savings and efficiencies in both dollars and BTU's to provide a more adequate assessment of whether the 20 x 10 initiative will meet the goal.

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Unrealized Savings: As a past policy decision, the energy savings gained in SBECF projects are never realized by the state general fund. Savings are realized by the SBECF for an average of 12 years, at which point, energy cost increases would negate all of the realized savings. One thing that SBECF projects do achieve for the state general fund, over the long run, is to reduce the slope of the cost curve. In other words, with new energy efficiencies, the cost increases due to energy inflation will not be as great, which reduces the pace that state agency energy rates are likely to increase.

The legislature and the executive branch made a policy decision to use energy savings to pay for the cost of the projects, the cost of the program, and the cost of state building deferred maintenance (as in current law)/new projects (as proposed) instead of returning the savings to the state general fund. The 61st Legislature will have the opportunity to revisit this policy in their work on the SBECF budget. Some options that might be considered by the Long-Range Planning Subcommittee include:

- Returning energy savings to the state general fund
- Allowing energy savings to continue to flow to the Long-Range Building Program for deferred maintenance on state buildings
- Approving the executive proposal to retain energy savings for use on future projects

LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

PROGRAM DESCRIPTION

The Long-Range Information Technology Program (LRITP) is an alternative method of funding large information technology (IT) investments. The LRITP consolidates new IT investments in one appropriation bill, expected to be HB 10, and defines major IT enterprises as capital projects. All projects included in the LRITP bill are overseen by the state chief information officer (CIO) within the Department of Administration (DOA).

The consolidation of major IT projects is intended to achieve several goals of the administration. First, IT projects are complex and require significant and time intensive planning, design, and management efforts, and by designating the projects as "capital projects", the appropriation continues until completion of the project, as statutorily authorized in 17-7-212, MCA. Second, centralized project oversight is expected to enhance project management and foster stronger partnerships between agencies and the state CIO. Finally, having all the major projects in one piece of legislation is anticipated to provide the legislature with a broad vision of the state IT program and related investments.

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the Long-Range Information Technology Program (LRITP) budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the LRITP was reduced by \$1.0 million, which would directly affect the planned general fund one-time only transfer to the LRITP. The reduction represents a 1.0 percent decrease of total funds or a 13 percent decrease of LRITP capital project funds. In Figure 6, reduced and eliminated projects are designated with a "®" following the project name.

Additionally, the revised executive budget increased the contingency for the general fund transfer to require a general fund ending fund balance of more than \$300 million. Because of the contingency language, and given the current estimate of the general fund balance, no general fund transfers are expected for the LRITP, and there will be no money for the MMIS replacement or the Improve Efficiency Through Imaging Technology projects. Consequently, the real reduction related to the revised executive budget is \$7.8 million or 7.6 percent of total projects.

Figure 6 shows the executive recommendation and cost of each of the LRITP projects. A description of each of the projects is provided below.

Long-Range Information Technology Program (LRITP)						
Executive Recommendation - 2011 Biennium						
Agency / Project / Description	LRITP Capital Projects Funds	Executive Recommendations				Total
		State Special	Federal Special	Bonding	General Fund	
<u>Department of Administration</u>						
Interoperability Montana (IM) Matching Funds					\$2,000,000	\$2,000,000
ESSC Relocation and Equipment					3,500,000	3,500,000
Governor's GIS Challenge ®					0	0
<u>Department of Labor and Industry</u>						
Building Standards System		\$2,400,000				2,400,000
Licensing Standard System		2,250,000				2,250,000
Unemployment Insurance Tax Modernization		1,735,567	\$3,000,000	\$15,000,000		19,735,567
<u>Department of Public Health and Human Services</u>						
MMIS Replacement	\$3,500,000		62,000,000			65,500,000
SEARCHES Planning			1,000,000		500,000	1,500,000
<u>Department of Revenue</u>						
Improve Efficiency Through Imaging Technology	3,366,178					3,366,178
Total Projects	\$6,866,178	\$6,385,567	\$66,000,000	\$15,000,000	\$6,000,000	\$100,251,745
® Reflects Dec. 15, 2008 executive budget revisions project reductions or eliminations						

Figure 6

Interoperability Montana Matching Funds, (DOA)

The Interoperability Montana (IM) proposal is an essential continuation of the Interoperability Montana Communication Project deployment and is intended to continue the build-out of the Interoperability Montana public safety radio system to regions in central and eastern Montana, with future impact on other areas of the state. Specifically, the funding approved through this request would provide general fund appropriations of \$2.0 million for matching funds for federal grants. These matching grants are anticipated to be utilized for infrastructure upgrades and radio system expansion in southwest, western, and central Montana. The IM project is led by a board of directors consisting of nine local and three state agencies, with local, tribal, state and federal non-voting partner groups. All 56 counties and 7 tribes are members, in addition to most state agencies that utilize radios. Over the past four years, the IM group has led deployment of equipment and services to improve interoperable communications. Previous legislative appropriations allowed the State of Montana to leverage an additional \$13.0 million in federal funding that required state matching funds.

ESSC Relocation and Equipment, (DOA)

The ESSC Relocation and Equipment proposal consists of two components which provide ITSD with 1) one-time-only funding for relocating existing IT equipment and services to the new facilities and 2) establishes the communications required to operate a second facility. The DOA requests a general fund appropriations of \$3.5 million to fund this project.

The Helena and Miles City Enterprise Systems Services Centers (ESSCs) are expected to be ready for occupancy by January, 2010. The success of the ESSCs will be greatly impacted by the start-up experience of ITSD and agencies using the ESSCs from the outset. The first component of the proposal includes the cost of using consultants experienced in moving data centers for both the planning of the move events and on-site oversight of the physical moves, movers experienced in moving sensitive electronic equipment, and charges from key vendors, to assist in the disassembly, reassembly, and testing of moved equipment.

The second component of the proposal would entail the installation of essential telecommunications equipment at the Miles City ESSC. Servers and data stored in the Eastern Montana facility must be accessible through the State of Montana secure network to provide services to state workers and Montana citizens, and to provide needed technical support for the Miles City site. Additionally, the mission of the Miles City ESSC to provide "non-stop" support for critical state services requires redundant, high quality telecommunications infrastructure in the Miles City facility. The equipment will allow site access to the wide area network (WAN), provide redundant connections to the servers and storage devices in Miles City, and support remote administration and support of Miles City equipment by Helena technicians. General fund support is requested to provide front-end financing of these important services.

Building Standards System (One-Stop Permitting), (DOL)

The primary goal of this project, which requests an appropriation of \$2.4 million of state special revenue, is to acquire a data management and customer service system to better serve the needs of the citizens, the design-build community, and the Department of Labor and Industry (DOL). The proposed system would provide business and technical services related to a comprehensive statewide data management and e-permitting system for State Building Codes responsibilities. The Bureau of Building and Measurement Standards (BBMS) establishes and enforces minimum building (including accessibility), plumbing, mechanical, electrical, energy, elevator, and boiler codes used by state and local governments. Additionally, BBMS sets operating standards and provides technical assistance and annual certification to local governments. In addition to the state, there are currently 46 local building departments, known as Certified Local Governments, that issue and track building-related permits and conduct plan reviews and inspections using a variety of manual and technology enabled systems.

Licensing Standard System (COTS System), (DOL)

The primary goal of this project, with a state special revenue request for an appropriation of \$2.3 million, is to acquire a comprehensive system that will track all data from the original application to the issuance of the license and provide additional services via e-government. This request proposes a system that would provide the

licensing bureaus (Business and Occupational Licensing and the Health Care Licensing) with a comprehensive data management and e-government licensing system for the 39 boards/programs and the approximately 150 license types. In response to this identified requirement, the Business Standards Division (BSD) has initiated a process of conducting an internal business process analysis and system requirement evaluation to provide business and technical services relating to an e-government solution and will be soliciting a request for proposal (RFP). This will provide:

- Requested services to Montana citizens via e-government
- Standardization between the licensing bureaus and among the licensing boards/programs
- Cross training for staff among the various boards and programs
- Use of licensing staff more efficiently within the license renewal cycles of boards and programs
- Technology upgrades to gain efficiencies within the WEB based architecture

Unemployment Insurance – UI Tax Modernization, (DOL)

This request would enhance the current UI Tax mainframe system; build a new custom system; and integrate with the Montana Integrated System to Improve Customer Service (MISTICS) system to meet federal and state unemployment insurance requirements. In addition, the proposal would improve and increase on-line, self-service access for customers and enhance internal security controls. The current UI tax system was revived in FY 2005 when the UI tax program was moved back to the DOL following termination of the POINTS project. The UI tax system is based on dated technology, and computer programmers with the expertise to support the system are difficult to find and demand high wages. The 60th Legislature authorized a feasibility study related to the risks of retaining and maintaining the current UI tax system as well as determining options for building a new system. The DOL is currently in the process of issuing an RFP for the feasibility study. Results from the study should be available by December 2008. The funding proposal includes appropriations of \$1.7 million in state special revenue, \$3.0 million in federal special revenue, and \$15.0 million in special revenue bond proceeds.

LFD ISSUE

Bond Issuance: After the release of the executive budget proposal, the Department of Labor (DOL) informed the Office of Budget and Program Planning (OBPP) that the UI Tax Modernization project may require debt financing, or the issuance of bonds. Upon learning of the need for bond authority, OBPP staff passed the information on to legislative staff. The proposed bonds would be special revenue bonds, implying that service fees and taxes obtained through DOL operations would be used to pay the debt service of the bond. As a result, the LRITP bill will include bond issuance authority of \$15.0 million.

Article VIII, Section 8, of the Constitution states, “No state debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon.”

Any debt is considered “state debt” when it is payable in a future budgetary period from revenues derived from the legislature’s exercise of the state’s taxing authority. While the bond issue recommended in the LRITP bill is a state special revenue bond, payable with funds derived through DOL operations, the re-payment funds will nevertheless originate from state imposed fees and taxes. Consequently, this bond issue will represent “state debt” and require a two-thirds vote of each house of the legislature.

The requirement of a super-majority vote, or two-thirds vote, of each house of the legislature creates concerns for the ability of this bill to be passed by the legislative body. As a result, the bill will include the two-thirds vote requirement in a separate section that affects only the authority for the bond issuance. Consequently, should the bill pass with only a majority vote, the bill will be approved but the bonding will not.

The Long-Range Planning Subcommittee may wish to discuss the ramifications of requesting bond issuance in the LRITP bill, given the two-thirds vote requirement. Some options that the Long-Range Planning Subcommittee may consider include:

- Issue the bond authority in a separate “companion” type bill
- Move the entire project, bond authority and appropriation, into a second “LRITP Bonding bill”
- Leave the bill as introduced.

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Note: The 2007 Legislature passed HB 790, which included an increase in unemployment taxes. The new tax has been directed to the financing of the UI Tax Modernization project. The tax generated the funds currently available for the state special funds appropriation of the UI Tax Modernization project. The bond issue is proposed to provide full up-front financing of the new system. Without the bond issue, the project can go forward as soon as the new tax generates sufficient funds. Consequently, the DOL requests that should the bond issue component of the project fail in the legislature, the appropriation remain at the full funding level to enable the project to be funded with the tax revenues

MMIS Replacement, (DPHHS)

The Department of Public Health and Human Services (DPHHS) requests funding to replace the current Medicaid Management Information System (MMIS) with a new system using updated technology. The funding proposal would include appropriations of \$3.5 million in LRITP capital project funds and \$62.0 million in federal special revenue funds. The current MMIS system is mainframe CICS/VSAM and utilizes COBOL legacy language that has been in operation since 1985. The system was previously updated in 1997 and certified by CMS in 1998. Due to the old technology and data integrity of the existing system, the DPHHS believes it is necessary to replace the current MMIS with a system using the most current technology in order to increase the accuracy and timeliness of processing claims.

The MMIS would be enhanced to include new business functionality identified during the Medicaid Information Technology Architecture (MITA) assessment as well as functionality required by federal law. In addition, the vendor would be required to re-engineer the system architecture (enhance maintainability and upgrade data access and storage capability, etc.). The MMIS would be able to support multiple benefit plans including managed care plans, premium payment plans, and multiple fee-for-service plans with different claims adjudication policies. The new MMIS would process all claims for Medicaid, the State Mental Health Services Plan (MHSP), the Developmental Disabilities Program, and the Breast and Cervical Cancer Program. The system will also need to have the flexibility to process claims from other programs that are not listed here. Finally, the system would issue premium payments for the Big Sky Rx and be capable of issuing capitation payments and performing enrollment broker functions to support managed care program administration.

SEARCHES Planning, (DPHHS)

The System for the Enforcement and Recovery of Child Support (SEARCHES) Planning project would provide funding to plan and develop the best course to modernize the current legacy child support system. Preliminary planning is recommended because of the magnitude of the project, with total project costs expected to be approximately \$90 million. This planning project proposes funding appropriations of \$1.5 million, \$0.5 million general fund and \$1.0 million of federal special funds.

The SEARCHES project is intended implement a modern system to replace the current legacy child support enforcement system. The primary objective of SEARCHES replacement is to incorporate all federal and state child support requirements and introduce advanced business functionality (e.g. a business rule engine) in a new system that would employ modern technologies. If the appropriation is approved by the legislature, the future project would include procurement and development services necessary to implement a modern system that fulfills state and federal requirements. The current system does not meet the needs of the users, and many functions are performed manually on spreadsheets outside the system by staff. It is no longer cost effective to attempt to meet future business needs through system enhancement. Changes necessary to meet federal mandates have become increasingly difficult and require more time and cost to complete due to the age of the system and the language it was written in.

Improve Efficiency Through Imaging Technology, (DOR)

The Department of Revenue (DOR), Information Technology and Processing Division requests appropriations of \$3.4 million in LRITP capital project funds and in general funds to implement a data imaging system that would facilitate more efficient handling of paper returns and other documents. The system would improve the DOR

business processes in the areas of compliance, tax processing, and information technology. This imaging technology proposal will create efficiencies that generate \$3.5 million in revenue in the 2011 biennium. The enhanced business efficiencies would improve taxpayer services by speeding up processing and help to provide sound studies and analysis for the executive, the legislature, and the public on tax policy matters.

The proposal will incorporate the use of imaging technology with its current computer systems to enhance and improve the processing of information received in the form of paper documents from the public. This represents the next logical step in the continued implementation of both the Integrated Revenue Information System (IRIS) and the Property Valuation Assessment System (PVAS) by adding imaging and workflow functionality for document handling and storage.

These funds would allow the DOR to purchase document imaging equipment and transition to converting paper information to electronic in a rapid, automated system that captures more tax information than at present. The result will be greater efficiency and speed in processing, faster refunds, and more timely and accurate service to the public. The DOR is responsible for the administration, security, and confidentiality of state tax documentation, in both physical and electronic formats. In transporting physical documents, the risks of disclosure are unnecessarily heightened. Imaging and workflow will greatly enhance the department's ability to protect confidential taxpayer information of both payments and documents. Imaging of documents will also provide improved document disaster recovery. Expenditures are anticipated to be one-time-only with the exception of ongoing costs such as maintenance and support.

LFD COMMENT

New Revenue and Savings: According to the DOR, the Improve Efficiency Through Imaging Technology project will produce \$3.5 million in new revenue in the 2011 biennium. The new revenues will be generated through enhanced compliance activities. Additionally, the project should provide program savings as the new system reduces the time required for DOR employees to manually enter information from paper tax documents. While DOR program savings are expected, the department did not provide information related to the amount of savings that could be achieved with the addition of this new project. The Long-Range Planning Subcommittee may wish to question representatives of the DOR related to the program savings that will be gained in this project.

FUNDING

The total cost of projects in the LRITP in the 2011 biennium is \$100.4 million. Project funding will come from a combination of one-time only (OTO) general funds deposited in the LRITP capital projects fund, state special revenues, federal special revenues, bond proceeds, and general fund. The allocation of project costs across the various funds is shown in Figure 6, and includes:

- \$6.9 million – LRITP Capital Projects Funds (money may not available for these project appropriations)
- \$6.4 million – State Special Revenue
- \$66.0 million – Federal Special Revenue (\$62 million are leveraged with OTO general funds transfers that may not be available the project appropriation)
- \$15.0 million – Bond Issue Proceeds
- \$6.0 million – General Fund

The OTO general fund transfers for two of the projects is \$6.8 million and the funds would be transferred to the LRITP capital projects fund, if the general fund balance is greater than \$300 million. Proposed general fund transfers along with the direct general funds appropriations are detailed in Figure 7, titled "General Fund Summary". If projects are defined as "capital projects", the appropriation authority will continue until the project is completed. Included in Figure 7 are the proposed amounts of general fund OTO transfers by fiscal year, the general fund OTO appropriations, and a breakout of expected future operational costs.

Long-Range Information Technology Program					
General Fund Summary: Proposed General Fund OTO Transfers and Appropriations					
Program	OTO Transfers		General Fund OTO Appropriations		Future New Program Costs
	FY 2010	FY 2011	FY 2010	FY 2011	Biennial
General Fund Transfers to the LRITP Capital Projects Fund					
MMIS Replacement	\$1,750,000	\$1,750,000			
*Improve Efficiency Through Imaging Technology	<u>1,680,000</u>	<u>1,680,000</u>			unknown
Total General Fund OTO Transfers:	<u>\$3,430,000</u>	<u>\$3,430,000</u>			
Direct General Fund Appropriations					
*Interoperability Montana (IM) Matching Funds			\$2,000,000	\$0	unknown
Governor's GIS Challenge ®			0	0	
ESSC Relocation and Equipment			3,500,000	0	
SEARCHES Planning			<u>500,000</u>	<u>0</u>	
Total General Fund OTO Appropriations:			<u>\$6,000,000</u>	<u>\$0</u>	
Future Costs					
Building Standards System					\$250,000
Licensing Standard System					<u>500,000</u>
Total New Operational Costs:					<u>\$750,000</u>

* There may be future operational costs associated with these projects.

Figure 7

LFD COMMENT

Transfer Contingency: As was the case in the 2009 LRITP budget, the 2011 biennium transfers of one-time only general fund monies would be conditioned, or “triggered”, on the size of the fund balance in the general fund. Information provided in the executive budget states that one-time only transfers would be contingent on an ending fund balance in the general fund of at least \$300 million, after consideration of the transfers. The 61st Legislature must keep in mind that should revenues not materialize as anticipated and transfers are reduced, the LRITP would be not have sufficient funds for all the projects. Because these projects are capital projects with appropriation authority that continues until the project is completed, a reduction of the planned transfers would either require new changes in project funding in future biennia, or future legislatures may need to eliminate appropriations. Additional questions are raised as a result of the contingent nature of the OTO transfers, for example:

- When would the determination to reduce transfers be made, and by whom?
- How will the reductions be made, pro-rata or whatever the executive believes is appropriate?
- If the fund balance drops below \$300 million, will the transfers be totally eliminated?

From a legislative perspective, the contingent nature of the OTO transfers is not good fiscal policy. If sufficient funds are not available to fund projects, the project appropriations should be eliminated. The legislature should not be delegating transfer authority to the executive without specific criteria specified in law. These guidelines should be designed to outline the directives the legislature wants to be followed. The Long-Range Planning subcommittee may wish discuss the transfer contingency in more detail.

Executive Budget Revisions: In the Dec. 15, 2008 executive budget revision, the “trigger” for transfer reductions to the LRITP was increased from \$125 million to \$300 million. Because of the current point-in-time estimates of the general fund balance and according to the general fund balance sheet produced by the executive on Dec. 15, 2008, only the general fund appropriations for the LRITP would be funded in the 2011 biennium, and there would not be any OTO general fund transfers to the LRITP. As a result, there is not expected to be adequate funds for the Department of Revenue project, “Improve Efficiency Through Imaging Technology” or the Department of Health and Human Services “MMIS” project appropriations.

The two projects that would only be funded if the general fund balance is estimated to be greater than \$300 million would cost \$6.9 million. The MMIS project would leverage \$62.0 million in federal funds. The Improve Efficiency Through Imaging project would provide new state revenues of \$3.5 million.

**LFD
ISSUE**

Over Appropriation: Because the \$300 million “trigger”, which initiates transfer reductions of the general fund to the LRITP has already been met, and there may not be general fund OTO transfers to the LRITP capital project fund in the 2011 biennium. As a result, the revenue available for LRITP projects is expected to be \$94.4 million, while appropriations recommended for the budget are \$100.3 million. Consequently, appropriations exceed anticipated revenue. According to the Montana Constitution, Article VIII, Section 9, *appropriations by the legislature shall not exceed anticipated revenue*. After review of the LRITP budget, the Long-Range Planning Subcommittee may be required to adjust the total appropriations to agree with the anticipated revenues.

TREASURE STATE ENDOWMENT PROGRAM

PROGRAM DESCRIPTION

The Treasure State Endowment Program (TSEP) is a state infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from the investment earnings of the Treasure State Endowment trust. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance the necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges. The maximum grant award is \$750,000.

Eligible applicants include cities, towns, counties, tribal governments, consolidated local governments, county or multi-county water, sewer or solid waste districts, and other authorities as defined in 75-6-304, MCA. TSEP applications are submitted to the Department of Commerce (DOC) on a biennial basis where they are evaluated according to seven statutory priorities. The seven statutory priorities focus on projects that:

- Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards
- Reflect greater need for financial assistance than other projects
- Incorporate appropriate, cost-effective technical design and provide thorough, long-term solutions to community public facility needs
- Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources
- Enable local governments to obtain funds from sources other than TSEP
- Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base
- Are high local priorities and have strong community support

In FY 2008, DOC made some significant changes to the TSEP application guidelines. The modifications included changes in target-rate calculations, per-household benefits, and scoring criteria, and adoption of a minimum score requirement (2,700). With the changes, the application guidelines now include deadlines that define how quickly local governments must meet the start-up conditions to receive their grants and how quickly local governments must act to procure an engineer when awarded a preliminary engineering grant (see comment below). To obtain more information on the changes to the application guidelines, refer to the *TSEP Application Guidelines*, which can be found on the Department of Commerce internet site.

LFD COMMENT

Deadlines: In past years, local governments have had an unlimited amount of time to meet the program provisions, or "start-up" conditions, for their authorized TSEP grants. There have been only a few cases where local governments were unable to meet the start-up conditions in a timely fashion. In HB 512 passed by the 60th Legislature, given the potential need of the TSEP to borrow money from the Board of Investments to fund all authorized grants, language was added to the TSEP appropriation bill which instituted a deadline for meeting the start-up conditions. The deadline caused much consternation for local governments, who feared they would not be able to meet the deadline. Now, DOC has informed applicants that they will propose a deadline for meeting start-up conditions in the 2009 version of the TSEP bill (HB 11). The Long-Range Planning Subcommittee may wish to discuss the potential ramifications of this new condition.

The DOC administers TSEP and makes recommendations for grant awards to the executive. The executive makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds. Grants have been the primary use of TSEP funding awarded since program inception.

Figure 8 provides a historic perspective of the Treasure State Endowment Trust. Currently, the endowment trust has a balance that approaches \$183.8 million, and by the end of the 2011 biennium, the trust is expected to grow to \$207.2 million. From FY 1995 through FY 2009, the trust has provided \$95.7 million in interest earnings for the TSEP, and is expected to generate another \$20.9 million in the 2011 biennium. In the 2001 biennium,

interest earnings were supplemented with an appropriation of \$3 million state general fund moneys to fund the total grant appropriations. For the 2009 biennium, the legislature provided an appropriation of \$17.6 million in borrowed funds to fund all the recommended local government grants. From 1995 biennium through the 2009 biennium, 252 grants have been authorized to receive grants, and from the 1995 biennium through the 2007 biennium*, the average number of grants authorized per biennium has grown by 12.2 percent.

Prior to FY 2006, TSEP loans were available to qualified applicants. However, only eight loans were authorized by the legislature in the first three funding cycles because of the high interest rates associated with the loans. None of the successful applicants opted to secure a TSEP loan. At the request of DOC, the Fifty-ninth Legislature eliminated the TSEP loan program.

*This figure was not calculated through the 2009 biennium due to the appropriation of borrowed funds to support authorized projects.

EXECUTIVE RECOMMENDATION

Figure 9 provides a list of the executive TSEP recommendations for the 2011 biennium. The DOC received 65 applications for TSEP grants requesting \$33.8 million for the 2011 biennium. The executive budget recommends appropriation of all the estimated TSEP trust earnings for program administration, projects, and expected debt service costs, which the executive budget estimates at \$21.7 million in the 2011 biennium. Total appropriations included in the TSEP projects bill, typically designated HB 11, are recommended at \$16.9 million. Administrative expenses are appropriated in the general appropriations act (HB 2) and debt service is statutorily appropriated. The executive budget recommends an appropriation of TSEP funds for the first 36 projects shown in Figure 9. The projects in Figure 9 are listed in order of priority, with several projects earning a tied priority ranking. The TSEP bill typically includes the authorization of three projects whose funding would exceed the biennial interest projections and are dependent on higher than expected interest earnings.

Treasure State Endowment Program Trust and Appropriation Statistics by Biennia							
	TSE Trust Bien Balance ¹	Trust Earnings	Percent Change	Number Grants	Number Loans	Grants Authorized	Loans Authorized
A 1995	\$31,793,125	\$2,738,847		20	4	\$3,966,000	\$168,000
A 1997	52,210,048	6,370,406	132.59%	15	0	4,991,029	
A 1999	68,334,808	9,022,963	41.64%	22	4	9,111,292	1,905,000
A 2001	92,182,012	10,924,899	21.08%	28	0	11,431,612	
A 2003	120,337,392	13,979,908	27.96%	31	0	13,672,060	
A 2005	138,169,251	16,356,156	17.00%	40	0	15,653,331	
A 2007	162,199,736	17,103,521	4.57%	40	0	15,968,253	
F 2009	183,815,257	18,533,062	8.36%	56	0	32,631,715	²
F 2011	207,226,257	20,927,525	12.92%	33	0	15,858,709	³

Figure 8

¹ Biennium End

² Does not include a grant of \$2.2 million to DNRC, RRGL program

³ Executive proposal

Treasure State Endowment Grants (TSEP)					
2011 Biennium					
Rank	Applicant	Project Type	Grant Requested	Grant Recommended	Cumulative Total
1	X Philipsburg, Town of	Wastewater	\$750,000	\$750,000	\$750,000
2	* Ravalli County	Bridge	137,193	137,193	887,193
3	* Sweet Grass County	Bridge	93,360	93,360	980,553
4	* X Melstone, Town of	Water	625,000	625,000	1,605,553
5	* Fergus County	Bridge	167,200	167,200	1,772,753
6	* Rudyard County W&S District	Wastewater	319,000	319,000	2,091,753
7	* X Cascade, Town of	Water	625,000	625,000	2,716,753
7	* Powell County	Bridge	304,248	304,248	3,021,001
9	* X Wolf Creek Co. W&S District	Wastewater	750,000	750,000	3,771,001
10	X Judith Gap, Town of	Water-Wastewater	750,000	750,000	4,521,001
11	* X Gardiner Park Co. W&S District	Wastewater	358,000	358,000	4,879,001
12	* X Winifred, Town of	Wastewater	500,000	500,000	5,379,001
13	* Beaverhead County	Bridge	290,668	290,668	5,669,669
14	X Sweet Grass Community Co. W&S District	Water	625,000	625,000	6,294,669
15	* X Nashua, Town of	Water	421,300	421,300	6,715,969
16	X Laurel, City of	Water	625,000	625,000	7,340,969
17	* X Homestead Acres W&S District	Water	573,325	573,325	7,914,294
18	* X Crow Tribe	Water-Wastewater	750,000	750,000	8,664,294
19	* Carbon County	Bridge	492,915	492,915	9,157,209
19	* Lewis and Clark County	Bridge	456,628	456,628	9,613,837
21	* Madison County	Bridge	413,203	413,203	10,027,040
22	* X Cut Bank, City of	Water	500,000	500,000	10,527,040
23	* X Broadview, Town of	Water	500,000	500,000	11,027,040
23	* X St. Ignatius, Town of	Water	253,000	253,000	11,280,040
25	* Jefferson County	Bridge	160,690	160,690	11,440,730
25	* Stillwater County	Bridge	292,979	292,979	11,733,709
27	X Wibaux, Town of	Wastewater	500,000	500,000	12,233,709
28	* X Granite County	Solid Waste	197,000	0	12,233,709
29	* X Missoula County (for Seeley Lake)	Wastewater	750,000	0	12,233,709
29	* X Seeley Lake Sewer District	Wastewater	750,000	0	12,233,709
31	* X Bigfork Co. W&S District	Wastewater	750,000	750,000	12,983,709
32	* X Choteau, City of	Wastewater	500,000	500,000	13,483,709
33	* X Valier, Town of	Water	625,000	625,000	14,108,709
34	* Carter Choteau Co. W&S District	Water	750,000	750,000	14,858,709
35	* X Hardin, City of	Wastewater	500,000	500,000	15,358,709
36	X Upper & Lower River Rd W&S District	Water-Wastewater	500,000	500,000	15,858,709
Projects below this line are recommended only with available funding					
37	* X Gildford Co. W&S District	Wastewater	538,000	538,000	16,396,709
38	X Big Sandy, Town of	Wastewater	500,000	500,000	16,896,709
38	X Ronan, City of	Water	750,000	750,000	17,646,709
40	* X Dutton, Town of	Wastewater	500,000	500,000	18,146,709
41	* Blaine County	Bridge	384,160	384,160	18,530,869
42	* X Loma County W&S District	Water	750,000	750,000	19,280,869
43	X Harlowton, Town of	Water	500,000	500,000	19,780,869
44	X Kevin, Town of	Water	500,000	500,000	20,280,869
45	X Flathead County for Bigfork	Stormwater	625,000	625,000	20,905,869
46	* X Woods Bay Homesites W&S District	Wastewater	730,000	730,000	21,635,869
47	* X Shelby, City of	Wastewater	750,000	625,000	22,260,869
48	* X Whitefish, City of	Wastewater	500,000	500,000	22,760,869
49	* X Eureka, Town of	Water	625,000	625,000	23,385,869
49	X Troy, City of	Water	750,000	715,000	24,100,869
51	* X Fallon Co. North Baker W&S District	Wastewater	500,000	120,000	24,220,869
52	X Sheaver's Creek W&S District	Wastewater	600,000	600,000	24,820,869
53	Yellowstone County	Bridge	228,753	228,753	25,049,622
54	* X Gore Hill Co. Water District	Water	250,300	250,300	25,299,922
55	X South Chester County Water District	Water	131,000	0	25,299,922
Sub-Total:			\$27,667,922	\$25,299,922	

Figure 9 (continued on next page)

Treasure State Endowment Grants (TSEP)					
2011 Biennium					
Rank	Applicant	Project Type	Grant Requested	Grant Recommended	Cumulative Total
		Balance:	\$27,667,922	\$25,299,922	
56	* X Livingston, City of	Solid Waste	500,000	500,000	\$25,799,922
57	* Flathead Co. Water District #8 (Happy Valley)	Water	500,000	500,000	26,299,922
58	X Bynum/Teton Co. W&S District	Water	567,000	567,000	26,866,922
59	Bozeman, City of	Wastewater	750,000	750,000	27,616,922
60	X Fort Smith W&S District	Water	500,000	500,000	28,116,922
61	X Jette Meadows W&S District	Water	750,000	750,000	28,866,922
62	X Greater Woods Bay Sewer District	Wastewater	732,000	488,000	29,354,922
Projects below this line are not recommended for funding					
63	* X Em-Kayan Co. W&S District	Water	290,619	0	29,354,922
64	X Stevensville, Town of	Water	750,000	0	29,354,922
65	X Bridger Pines Co. W&S District	Wastewater	750,000	0	29,354,922
Total TSEP Grants Requested/Recommended			<u>\$33,757,541</u>	<u>\$29,354,922</u>	
* Indicates preliminary engineering grant recipients					
X Coordination Indicator / Indicates RRGL Grant Request					

Figure 9 (continued from previous page)

FUNDING

Figure 10 shows the projected grant funds available from the treasure state endowment state special revenue account for the 2011 biennium under present law assumptions. The TSEP account will begin the biennium with a negative beginning fund balance of \$80,153. The negative beginning fund balance of July 1, 2009 results primarily from a reduced interest earnings estimate for FY 2009, as proposed by the Revenue and Transportation Interim Committee in HJR 2.

Total new revenue in the account is estimated at \$20.9 million for the biennium. The 2011 biennium ending fund balance shows two expenditures that are funded from the TSEP account but are appropriated in the general appropriation act (HB 2). First, there is a reduction of \$1.2 million for the administrative costs of the program. The second reduction is for \$56,000, which is proposed for DNRC for assistance in administration of TSEP loan program, which was eliminated in HB 11 in the 2005 session (for more information on this issue, see the LFD issue below). Other expenses, appropriated in the TSEP bill, would include \$100,000 for the emergency grants program and a \$900,000 appropriation for pre-engineering grants. Expenditures also include an estimated statutory appropriation for debt service for a potential loan. The loan may be required to provide funds for all grants as authorized by the 60th Legislature. The proposed debt service cost was not formally included in the executive budget. However, the figure used for the debt service estimate was provided for this analysis by the DOC who obtained the estimate from the Office of Budget and Program Planning. The executive budget did not include any detail related to the potential debt service. Considering the grant awards recommended in the executive budget, \$15.9 million, the TSEP would end the biennium with a negative fund balance of \$853,820.

Treasure State Endowment Fund (02270)	
Fund Balance Projection 2011 Biennium	
Estimated Beginning Fund Balance (7/01/2011)	(\$80,153)
Revenue Projections ¹	
FY 2010 Investment Earnings	\$9,989,000
FY 2011 Investment Earnings	<u>10,938,000</u>
2011 Biennium Revenues	\$20,927,000
Proposed Expenditures ²	
Administration - Commerce	(\$1,185,958)
Administration - DNRC	(\$56,000)
Emergency Grants	(100,000)
Preliminary Engineering Grants	(900,000)
Debt Service Expense ³	<u>(3,600,000)</u>
Total Expenditures	<u>(\$5,841,958)</u>
Balance Available for Grants	\$15,004,889
Proposed Grants ²	<u>(15,858,709)</u>
Estimated Ending Fund Balance - (6/30/2011)	<u>(\$853,820)</u>
¹ Based on RTIC estimates	
² Based on executive budget proposal	
³ Not detailed in executive budget, assumptions are not known	

Figure 10

**LFD
ISSUE**

Lack of Information on Debt Service: The 60th Legislature appropriated sufficient funding for the 56 grants recommended in the 2009 biennium. The grant awards were contingent on local governments completing all of required “start-up” conditions by June 30, 2009. To fund grants the 60th Legislature appropriated \$17.3 million from the TSEP earnings to fund the \$32.7 million dollars of local government project grants and other appropriations related to program. The legislature also appropriated loan proceeds of up to \$17.5 million from the Board of Investments to meet any grant obligations that would be incurred above the expected interest earnings (including a \$2.2 million grant to the Renewable Resource Grant and Loan Program). The executive budget proposal for the TSEP did not contain any mention of the impending loan that the program will be required to assume to cover the cost of the authorized grants. However, through the analysis of the TSEP program, it was learned that the executive assumed biennial loan payments of \$3.6 million. Unfortunately, no detail behind the calculation of the debt service obligation was shared with the Legislative Fiscal Division. Consequently, there is no way to know if the planned statutory appropriation of \$3.6 million is accurate.

The total TSEP loan authorization passed by the 60th Legislature was \$17.3 million. Calculating a loan amortization for the entire amount authorized, \$17.3 million, at 6 percent interest, for 15 years, the biennial debt service would be \$3.5 million. However, the likelihood of the TSEP program being required to borrow the total amount authorized is low. In the work of the Long-Range Planning Workgroup (LRPwg), a workgroup of the interim Legislative Finance Committee, during the 2007-2008 interim, analysis provided that the debt service obligation for a loan of \$14 million would cost TSEP \$2.9 million per biennium. The LRPwg assumed a \$14 million loan would represent a worst case scenario.

To date, \$19.4 million has been committed to 37 grants authorized by the 60th Legislature. According to TSEP staff, the remaining 19 local governments continue to work to meet the start-up conditions by the end of the 2009 biennium. The \$19.4 million currently promised to grants exceeds the expected interest earnings of the trust, and the TSEP will be required to borrow funds to cover the costs of the grants, and a loan will be required.* The Long-Range Planning Subcommittee will be required to analyze the need for borrowed funds and determine the associated debt service in order to ascertain the funds available for grants in the 2011 biennium.

* The 61st Long-Range Planning Subcommittee/Legislature could choose to fund fewer grants in the 2011 biennium and use all or a portion of the 2011 biennium revenues to fund grants authorized by the 60th Legislature.

**LFD
ISSUE**

Negative Ending Fund Balance: The TSEP is expected to begin the 2011 biennium with a negative ending fund balance, and estimates adopted by the Revenue and Transportation Interim Committee (RTIC) forecast that interest earnings will not adequately fund the number of grants recommended in the executive budget. The negative ending fund balance results from a reduction in estimated interest earnings for FY 2009, coupled with increases related to unexpended administrative costs. According to the Montana Constitution, Article VIII, Section 9, *appropriations by the legislature shall not exceed anticipated revenue*. If the legislature maintains the priority listing provided in the executive budget, full funding will be available for the first 34 funding recommendations shown in Figure 9. After a further review of the TSEP budget (including a thorough review of the loan potential and associated debt service costs), the Long-Range Planning Subcommittee may be required to adjust the total appropriations and the related authorized grants to agree with the anticipated revenues.

**LFD
ISSUE**

DNRC Appropriation: The Fifty-ninth Legislature amended section 90-6-703, MCA to eliminate the TSEP loan program. Previously, loans authorized under the TSEP program would have been issued and administered by the Department of Natural Resources and Conservation (DNRC) in conjunction with loans issued for the Renewable Resource Grants and Loan Program. While eight TSEP loans were authorized by legislatures, four in the 1995 biennium and four in the 1999 biennium, the loans were never consummated. Since the inception of the TSEP, DNRC has been appropriated TSEP interest earnings in excess of \$450,000 to cover costs associated with loan issuance and administration. Since the elimination of the TSEP loan program, there is no longer a financial justification for the transfer of TSEP funds in support of the DNRC loan program. The 60th Legislature's Long-Range Planning Subcommittee informally requested that the Natural Resources Subcommittee eliminate the appropriation. Unfortunately, the appropriation of TSEP funds was not eliminated from the general appropriations act. As shown in the fund balance projection table above, the executive budget once again recommends a \$56,000 appropriation to the DNRC in the general appropriations act (HB 2) for loan administration for the 2011 biennium.

Options:

- 1) The LRP Subcommittee could formally request that the Natural Resources Subcommittee remove the appropriation of TSEP funds to the DNRC in the general appropriations act.
- 2) The LRP Subcommittee could take no action.

TREASURE STATE ENDOWMENT REGIONAL WATER SYSTEM

PROGRAM DESCRIPTION

The 1999 Legislature created the treasure state endowment regional water system fund as a new sub-trust within the coal tax permanent trust. The Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to:

“...finance regional drinking water systems that supply water to large geographical areas and serve multiple local governments, such as projects in north central Montana, from the waters of the Tiber reservoir, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of Havre, north of Dutton, and east of Cut Bank and in northeastern Montana, from the waters of the Missouri River, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of the North Dakota border, north of the Missouri River, and east of range 39.”

Two projects that have received federal authorization and now qualify for a match of federal funding are the Fort Peck Indian Reservation/Dry Prairie Regional Water System (Fort Peck/Dry Prairie) and the Rocky Boy's Indian Reservation/North Central Montana Regional Water System (Rocky Boy's/NC Montana). The federal government estimates total project costs for Fort Peck/Dry Prairie at approximately \$252 million (as adjusted for inflation) and the Rocky Boy's/NC Montana at approximately \$329 million (as adjusted for inflation). The costs include a nonfederal (state and local) match of over \$21 million for the Dry Prairie project and in excess of \$36 million for the NC Montana project. The federal government match for each regional water project local dollar is between \$9 and \$12. The local match is split evenly between the state and the local regional water authority, unless hardship is proved. In cases of hardship, the split is 75 percent for the state and 25 percent for the regional water authority.

A third project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland, Prairie, and Dawson counties. The Dry-Redwater Regional Water Authority was established in FY 2006. A project feasibility study was completed in FY 2007. Engineering estimates of the cost of this system, including a surface water treatment plant and water delivery system, exceed \$110 million. Legislation to authorize the project in the U.S. Congress is currently pending, with re-introduction by Sen. Baucus expected early in 2009.

A fourth project, the Musselshell-Judith Regional Water System (Central Montana Regional Water Authority), has not qualified for federal funding, but it has received program approval from the state. The project received status as a regional water authority early in FY 2006. The system would serve over a dozen communities along the Judith and Lower Musselshell Rivers, at a total estimated cost of \$80 million to \$90 million, with groundwater wells as the source of the water.

The program is administered by the Department of Natural Resources and Conservation (DNRC). Construction of the TSEPRW projects began in the 2005 biennium. TSEPRW construction funds appropriated in the 2003 session provided the first match to federal dollars for regional water projects. The cost of program administration is recommended in the general appropriations act, HB 2.

EXECUTIVE RECOMMENDATIONS

NOTE: The Legislative Fiscal Division analysis of the TSERW budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the TSERW was reduced by \$4.0 million, which would eliminate the planned general fund one-time only transfer to the TSERW.

The executive budget did not contain a recommendation for funding of TSEPRW project costs. DNRC administrative costs of \$1.4 million are recommended in the general appropriations act, HB 2, but no mention of an appropriation of interest earnings was included in the executive budget.

FUNDING

Since July 1, 1999, 12.5 percent of the coal severance tax revenues have flowed into the TSEPRW trust fund. The current principal balance in the TSEPRWS trust is \$49.4 million and is expected to grow to \$61.1 million by the end of the 2011 biennium. The interest earned from the fund is transferred into the account authorized in Title 90, Section 6, part 7, MCA, to provide a match for federal and local monies for the purpose of developing large water systems.

Figure 11 shows the fund balance calculation for the TSEPRW account for the 2011 biennium. The beginning fund balance consists of unexpended interest earnings from the 2009 biennium. The 60th Legislature appropriated \$6.7 million from the TSEPRW trust interest for regional water projects and expected that debt

service related to a possible bond issue would cost \$126,705. To date, there has been no expenditure of interest earnings for regional water projects in the 2009 biennium, but the DNRC expects to enter into three contracts totaling \$3.3 million in FY 2009. The remaining appropriation will revert at the end of the biennium, and the related funds will be available for new appropriations in the 2011 biennium. No bonds will be issued in the 2009 biennium for regional water projects, so funds assumed to be required for debt service will also be available for new appropriations.

The trust earnings are expected to be \$5.8 million in the 2011 biennium. Statutorily, the interest earnings of the trust may be used to fund the administrative expenses for the program, and the executive recommendation proposes an administrative appropriation of \$1.4 million for the 2011 biennium, which will be appropriated in the general appropriation act (HB 2). All remaining funds, \$7.5 million, are available for appropriation in the TSEP bill for funding regional water construction projects.

TSEP Regional Water System Fund (02015)	
Fund Balance Projection 2011 Biennium	
Estimated Beginning Fund Balance (7/1/2009)	\$3,067,623
Revenue Projections ¹	
2010 Investment Earnings	\$2,690,000
2011 Investment Earnings	<u>3,136,000</u>
2011 Biennium Revenues	\$5,826,000
Proposed OTO General Fund Transfer ³	\$0
Proposed Expenditures ²	
Administration - DNRC	<u>(\$1,424,586)</u>
Total Funds Available For Projects	<u>\$7,469,037</u>
¹ Based on RTIC estimates	
² Based on executive budget proposal	
³ Eliminated in the Dec. 15, 2008 executive budget revisions	

Figure 11

LFD COMMENT

Outstanding Bond Issue Authority: In addition to the interest earnings and general fund transfer, the TSEPRW program has appropriations for an authorized of \$22.2 million of bond proceeds. The 60th Legislature authorized and provided appropriations for a \$17.2 million bond issue in the 2007 version of HB 8. The 59th Legislature authorized and provided appropriations for a \$5.0 million bond issue in HB 748 during the 2005 legislative session. At this point, no bonds have been issued for the TSEPRW program, and according to DNRC, there is no plan to issue bonds for the Regional Water Systems. Should bonds be issued, the annual debt service on \$22.2 million, given an interest rate of 6.0 percent and an expected life of 15 years, would be approximately \$2.2 million annually, or \$4.5 million per biennium. The Long-Range Planning Subcommittee may wish to discuss the current authority with representatives of the DNRC.

LFD ISSUE

Omitted Recommendation: For the third time in as many biennia, the executive budget recommendation did not include an appropriation for TSEPRW project funding. While there was no budget presentation for TSEPRW projects, the "Financial Overview" provided in the front of the executive budget shows a general fund OTO transfer of \$4 million to the TSEPRW state special fund. The OTO transfer was eliminated in the Dec. 15, 2008 executive budget reductions. The 61st Legislature will be required to add an appropriation to the budget before any construction can take place in the 2011 biennium.

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

PROGRAM DESCRIPTION

Resource Indemnity Trust (RIT) investment earnings are a major source of revenue for several natural resource agencies and programs, including: 1) the Renewable Resource Grants and Loan Program (RRGL); and 2) the Reclamation and Development Grants Program (RDGP). The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIGWA proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the Legislative Fiscal Division Budget Analysis, Volume 5.

The Renewable Resource Grants and Loan (RRGL) program was created by the 1993 Legislature. This program combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that "enhance Montana's renewable resources through projects that measurably conserve, develop, manage, or preserve resources."

The DNRC administers the RRGL program, which involves a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria:

- Financial feasibility
- Adverse environmental impact
- Technical merit
- Public benefit
- Need
- Urgency

DNRC submits a list of funding recommendations to the Governor, who reviews the list and submits recommendations to the legislature. Funding for projects comes in the form of grants (\$100,000 maximum) and/or loans. Eligible applicants include, but are not limited to:

- A department, agency, board, commission, or other division of state government
- A city, county, or other political subdivision or local government body of the state
- A tribal government

The legislature has final approval for the awarding of RRGL grants and loans.

EXECUTIVE RECOMMENDATION

RRGL Grants

Figure 12 shows a priority listing of the RRGL grants recommended by the executive for the 2011 biennium. DNRC received a total of 92 grant applications. The RRGL grant bill, typically designated HB 6, is expected to include a list of 89 projects that have the recommendation of DNRC. The executive recommendation would provide an appropriation of \$5.1 million, or enough to fund the first 52 project applications. The executive recommendation also recommends appropriations for \$100,000 to fund the DNRC emergency grant program, \$800,000 for project planning grants (double the amount of past appropriations), \$300,000 for irrigation development grants, and \$50,000 for private grants. Total appropriations for the RRGL program are \$6.3 million.

Renewable Resource Grants (RRGL) 2011 Biennium					
Rank	Applicant	Grant Requested	Grant Recommended	Cumulative Total	Loan Recommended
1	X Dutton, Town of Dutton WW System Improvements	\$100,000	\$100,000	\$100,000	
2	* X Philipsburg, Town of Philipsburg WW System Improvements	100,000	100,000	200,000	
3	X Upper Lower River Road WSD Upper Lower River Road Phase 3 Water & Wastewater Improvements	100,000	100,000	300,000	
4	Fork Peck Tribes Fort Peck Tribes lateral L-56 Rehab Project	100,000	100,000	400,000	
5	* Bitter Root Irrigation District Bitter Root Irrigation District Siphon 1:Phase 1	100,000	100,000	500,000	\$473,000
6	Milk River Irrigation Project Milk River system-wide Geolrrigaton Mapping Project	65,004	65,004	565,004	
7	* X Big Sandy, Town of Big Sandy WW Improvement Project	100,000	100,000	665,004	
8	Beaverhead CD Big Hole Spring Creek Kalsta Spring Creek WQ Enhancement	97,485	97,485	762,489	
9	DNRC- Water Resources Div Ruby Dam Rehabilitation Project	100,000	100,000	862,489	2,000,000
10	X Nashua, Town of Nashua Water System Improvements	100,000	100,000	962,489	
11	* Hysham ID Pump Station Electrical Improvements Project	100,000	100,000	1,062,489	
12	Yellowstone County West Billings Flood control and Groundwater Recharge Study	100,000	100,000	1,162,489	
13	* Clinton Irrigation District Main Canal Rehabilitation Project	99,610	99,610	1,262,099	
14	X Hardin, City of Hardin WW System Improvements	100,000	100,000	1,362,099	
15	* Lewistown, City of Lewistown WW System Improvements	100,000	100,000	1,462,099	
16	* X Winifred, Town of Winifred WW System Improvements	100,000	100,000	1,562,099	
17	X Gildford County WSD Gildford WW System Improvements	100,000	100,000	1,662,099	
18	X Melstone, Town of Melstone Water System Improvements	100,000	100,000	1,762,099	
19	Hysham ID SDSS Flow Monitoring/Data Transfer Project	100,000	100,000	1,862,099	
20	X Choteau, City of Choteau WW System Improvements	100,000	100,000	1,962,099	
21	* X Wolf Creek County WSD Wolf Creek WW System Improvements	100,000	100,000	2,062,099	
22	Lower Musselshell CD Lost Horse Creek Siphon Pipeline Rehabilitation	100,000	100,000	2,162,099	
23	X Whitefish, City of Whitefish WW System Improvements	100,000	100,000	2,262,099	
24	X Gardiner-Park County WSD Gardiner WW System Improvements	100,000	100,000	2,362,099	
25	DNRC- Water Resources Div Twodot Canal Rehabilitation Project	100,000	100,000	2,462,099	
26	* X Cascade, Town of Cascade Water System Improvements	100,000	100,000	2,562,099	
27	Sweet Grass County CD Post-Kellogg Diversion Structure Infrastructure Rehabilitation	100,000	100,000	2,662,099	
28	X Wibaux, Town of Wibaux WW System Improvements	100,000	100,000	2,762,099	
Sub-Total:		2,762,099	2,762,099		2,473,000

Figure 12 (continued on next page)

Renewable Resource Grants (RRGL)						
2011 Biennium						
Rank	Applicant	Grant Requested	Grant Recommended	Cumulative Total	Loan Recommended	
	Balance:	2,762,099	2,762,099		2,473,000	
29	Ravalli County Environmental Health Bitterroot Valley Septic Systems Impact Evaluation Model	100,000	100,000	2,862,099		
30	* X Bynum Teton County WSD Bynum Water System Improvements	100,000	100,000	2,962,099		
31	Lake County Lake County LiDAR Mapping Project	100,000	100,000	3,062,099		
32	Ravalli County Ravalli County Phase II LiDAR Mapping	100,000	100,000	3,162,099		
33	X Judith Gap, Town of Judith Gap Water and WW System Improvements	100,000	100,000	3,262,099		
34	* X Crow Tribe of Indians Crow Agency WW System Improvements Phase IIIA	100,000	100,000	3,362,099		
35	Stevensville, Town of Stevensville WW Improvements Project	100,000	100,000	3,462,099		
36	* X Flathead County Bigfork Stormwater System Improvements	100,000	100,000	3,562,099		
37	* X Kevin, Town of Kevin Water System Improvements	100,000	100,000	3,662,099		
38	X Em-Kayan Village WSD Em-Kayan Village Water System Improvements	100,000	100,000	3,762,099		
39	X Broadview, Town of Broadview Water System Improvements	100,000	100,000	3,862,099		
40	DNRC- Water Resources Div Deadman's Basin Terminal Outlet Replacement Project	100,000	100,000	3,962,099		400,000
41	Big Horn CD Water Reservations Efficiencies	19,486	19,486	3,981,585		
42	DNRC- Water Resources Div Martinsdale Reservoir Dam Drain Project	100,000	100,000	4,081,585		
43	X Loma County WSD Loma Water System Improvements	100,000	100,000	4,181,585		
44	X Woods Bay Homesites WSD Woods Bay WW System Improvements	100,000	100,000	4,281,585		
45	X Sheaver's Creek WSD Sheaver's Creek WW System Improvements	100,000	100,000	4,381,585		
46	* Bozeman, City of Hyalite Creek Source Water Protection Barrier Project	100,000	100,000	4,481,585		
47	X Greater Woods Bay Sewer District Greater Woods Bay WW System Improvements	100,000	100,000	4,581,585		
48	* Virginia City, Town of Virginia City WW System Improvements	100,000	100,000	4,681,585		
49	Helena Valley ID HVID Main Canal Lining Project	100,000	100,000	4,781,585		
50	Flathead County Flathead Regional Wastewater Management Group	89,993	89,993	4,871,578		
51	X North Baker WSD North Baker WW System Improvements	100,000	100,000	4,971,578		
52	X Valier, Town of Valier Water System Improvements	100,000	100,000	5,071,578		
Projects below this line are recommended only with available funding						
53	Flathead Joint Board of Control FJBC Jocko K Canal Lining	100,000	100,000	5,171,578		
54	Sweet Grass County Yellowstone Greycliff Study	80,000	80,000	5,251,578		
55	X Cut Bank, City of Cut Bank Water System Improvements	100,000	100,000	5,351,578		
Sub-Total:		5,351,578	5,351,578		2,873,000	

Figure 12 (continued on next page)

Renewable Resource Grants (RRGL) 2011 Biennium						
Rank	Applicant		Grant Requested	Grant Recommended	Cumulative Total	Loan Recommended
	Balance:		5,351,578	5,351,578		2,873,000
56	Confederated Salish and Kootenai Tribes Upper Jocko S Lining Project		100,000	100,000	5,451,578	
57	X	St. Ignatius, Town of St. Ignatius Water System Improvements	100,000	100,000	5,551,578	
58		Missoula County Lewis and Clark Subdivision RSID Water System Improvements	100,000	100,000	5,651,578	
59	* X	Bridger Pines County WSD Bridger Pines WW System Improvements	100,000	100,000	5,751,578	
60		Ennis, Town of Ennis Water System Improvements	100,000	100,000	5,851,578	
61	X	Laurel, City of Laurel Water System Improvements	100,000	100,000	5,951,578	
62	X	Fort Smith WSD Fort Smith Water System Improvements	100,000	100,000	6,051,578	
63	X	Troy, City of Troy Water System Improvements	100,000	100,000	6,151,578	
64		DNRC- Water Resources Div Nevada Creek Canal Design and Construction Project	100,000	100,000	6,251,578	
65	* X	Granite County Granite County Solid Waste Improvements	100,000	100,000	6,351,578	
66	X	Harlowton, City of Harlowton Water System Improvements	100,000	100,000	6,451,578	
67	X	Jette Meadows WSD Jette Meadows Water System Improvements	100,000	100,000	6,551,578	
68	X	Homestead Acres County WSD Homestead Acres Water System Improvements	100,000	100,000	6,651,578	
69	* X	South Chester Water District South Chester Water System Improvements	100,000	100,000	6,751,578	
70	X	Bigfork WSD Bigfork WW System Improvements	100,000	100,000	6,851,578	
71		Greenacres County WSD Greenacres Water System Improvements	100,000	100,000	6,951,578	
72	X	Livingston, City of Livingston Anaerobic Digester Improvements and Composting	100,000	100,000	7,051,578	
73	* X	Eureka, Town of Eureka Water System Improvements	100,000	100,000	7,151,578	
74	*	Manhattan, Town of Manhattan Water System Improvements	100,000	100,000	7,251,578	
75	* X	Stevensville, Town of Stevensville Water System Improvements	100,000	100,000	7,351,578	
76		Buffalo Rapids Project District II Conversion of laterals 2.9/7.6 to Pipeline	100,000	100,000	7,451,578	
77		Flathead Basin Commission Mapping the Impacts of Septic Systems: A Shallow GW Study	100,000	100,000	7,551,578	
78	*	Daly Ditches ID Hedge Canal Diversion Dam Replacement	100,000	100,000	7,651,578	
79		Fort Shaw Irrigation District Water Quality and Quantity Improvement	100,000	100,000	7,751,578	
80	*	East Bench Irrigation District EBID Sweetwater Seepage Area Canal Lining	100,000	100,000	7,851,578	
81		MSU Montana Watercourse Watershed Education for Real Estate Agents	19,333	19,333	7,870,911	
82	* X	Shelby, City of Shelby WW System Improvements	100,000	100,000	7,970,911	
83		Buffalo Rapids Project District II Increasing Pump Discharge Line Efficiency: Phase II	100,000	100,000	8,070,911	
Sub-Total:			8,070,911	8,070,911		2,873,000

Figure 12 (continued on next page)

Renewable Resource Grants (RRGL) 2011 Biennium					
Rank	Applicant		Grant Requested	Grant Recommended	Cumulative Total
		Balance:	8,070,911	8,070,911	2,873,000
84	X	Sweet Grass County WSD	100,000	100,000	8,170,911
		Sweet Grass Water System Improvements			
85	X	Gore Hill County Water District	100,000	100,000	8,270,911
		Gore Hill Water System Improvements			
86		Whitefish County WSD	70,000	70,000	8,340,911
		Investigation of Septic Leachate to Littoral Areas of Whitefish Lake			
87		Richland County CD	100,000	100,000	8,440,911
		Lower Yellowstone GW Reservation			
88		MSU Montana Water Center	99,462	99,462	8,540,373
		Decisionmaker's Guide To Montana's Water			
89		Ronan, City of	100,000	100,000	8,640,373
		Ronan Water System Improvements			
Projects below this line are not recommended for funding					
		City of Missoula	79,310	0	8,640,373
		Fort Missoula/Bitterroot River Bank Stabilization Design Project			
		Garfield County CD	100,000	0	8,640,373
		Mosby Musselshell Watershed Group Water Storage Project			
		Greenfields Irrigation District	100,000	0	8,640,373
		Pishkun Enlargement Study			
Total RRGL Grants Requested/Recommended			<u>\$8,819,683</u>	<u>\$8,640,373</u>	<u>\$2,873,000</u>
* Indicates project planning grant recipients					
X Coordination Indicator / Indicates TSEP Grant Request					

Figure 12 (continued from previous page)

**LFD
COMMENT**

Other Program Appropriations: The executive budget includes appropriation recommendations for two distinct programs that will be included in the RRGL bill.

The executive budget recommends an appropriation of \$300,000 for the irrigation development grants program. This program, offering grants at a maximum of \$15,000, provides funding for projects that lead to the development of new irrigation projects and activities that increase the value of agriculture for existing irrigated lands. The recommended appropriation would fund at least 20 grants.

The executive budget also recommends an appropriation of \$50,000 for a renewable resource private grant program. In this program, funding is targeted to assist small privately owned water systems. Funds will assist the owners of small systems to meet the Safe Drinking Water Act regulations and other water system requirements. Feasibility studies, research, and/or public information projects would not be recommended for funding in this program. Grants to private entities are limited to 25 percent of the project cost or \$5,000, whichever is less. This appropriation would fund at least 10 private water grants.

FUNDING

The funding methodology for both the RRGL and RDGP programs was changed by the 60th Legislature in HB 116. Now both programs are funded through one combined fund, titled the "natural resource projects fund". For information related to the funding of the RRGL project, see "Funding: Natural Resource Projects Account" located on page F-38.

RRGL Loans

A second RRGL bill, typically designated HB 8, will authorize the issuance of coal severance tax bonds to finance RRGL project loans. Proceeds from the issuance of bonds are used to fund the loans, with loan repayments used to pay the debt service. Loans have differing interest rates based on the borrower's financial capacity for loan repayment. The interest payments on some of the bonds are subsidized with earnings from the

coal severance tax bond fund. Because these are general obligation bonds, they constitute state debt that requires a two-thirds vote of the members of each house. Moreover, because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, the RRGL loan/bond bill will also require a three-fourths vote of the members of each house, as directed by the Montana Constitution.

EXECUTIVE RECOMMENDATION

The executive budget recommendation contains a request for loans under the RRGL that total \$2.9 million in new requests, but the DNRC will request total bond authority of \$9.6 million in the RRGL loan/bond bill. The details, as proposed for the drafting of HB 8, include new loan authorizations of \$2.9 million and loan re-authorizations of \$2.0 million. Additional DNRC recommendations include \$3.5 for loans to grant projects that may not have completed the requirements to obtain a grant by the deadline of June 30, 2007, and an additional amount of \$1.3 million to establish a reserve for the bonds.

Renewable Resource Loans 2011 Biennium		
Loans-Sponsor/Project	Loan Recommendation	Cumulative Total
Section 1¹		
Subsection (2) Projects (4.5% or State bond rate, whichever is lower-20 years)		
Bitter Root Irrigation District		
Siphon 1: Phase 1	\$473,000	\$473,000
Montana Department of Natural Resources and Conservation		
Ruby Dam Rehabilitation Project	2,000,000	2,473,000
Montana Department of Natural Resources and Conservation		
Deadman's Basin Terminal Outlet Replacement Project	400,000	2,873,000
Section 2²		
Subsection (2) Projects (4.5% or State bond rate, whichever is lower-20 years)		
Mill Creek Irrigation District		
Mill Lake Dam Rehabilitation	572,000	3,445,000
Subsection (3) Projects (4.5% or State bond rate, whichever is lower-30 years)		
Sunset Irrigation District		
Gravity Flow Irrigation Pipelines	<u>1,465,266</u>	4,910,266
Total Loan Authorizations:		\$4,910,266
Additional Loan Authorizations ³ :		3,468,795
Loan Reserve:		<u>1,256,859</u>
Total Bond Request		<u>\$9,635,920</u>
¹ Section 1 are new loans that meet the provisions of 17-5-702, MCA.		
² Section 2 are loans to be reauthorized		
³ To finance loans in lieu of grants for grants recommended in the RRGL program		
NOTE: Projects are grouped by differences in loan circumstances and interest rates.		

Figure 13

The RRGL loan/bond bill would authorize the Board of Examiners to issue coal severance tax bonds in the amount of \$9.6 million, which would be appropriated to the Department of Natural Resources for financing the projects identified in the bill. The DNRC loan recommendations for the 2011 biennium are included in Figure 13. The repayments of the loans financed with coal severance tax bonds are used to pay the debt service. Because the loans authorized in the RRGL loan/bond bill are sometimes offered at reduced rates, coal severance tax revenues subsidize these reduced rates. Consequently, less principal is invested in the Treasure State Endowment Fund, the Treasure State Endowment Regional Water System Fund, and the Economic Development Trust. As a result, the trust receives reduced interest earnings.

FUNDING - LOANS

RRGL program bond authority is provided in 85-1-624, MCA. Money in the coal severance tax bond fund is pledged for the payment of the principal and interest of the bond issue requested in RRGL loan/bond bill, as directed in Title 17, Chapter 5, part 7, MCA.

NOTE:

Bonds authorized in RRGL loan/bond bill are general obligation bonds, constituting a state debt and requiring a two-thirds vote of the members of each house of the legislature. Furthermore, the coal severance tax bond fund is pledged for debt service payments on the bonds, requiring a three-fourths vote of the members of each house as mandated by the Montana Constitution.

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

PROGRAM DESCRIPTION

Resource Indemnity Trust (RIT) investment earnings are a major source of revenue for several natural resource agencies and programs, including: 1) the Renewable Resource Grants and Loan Program (RRGL); and 2) the Reclamation and Development Grants Program (RDGP). The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIGWA proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the Legislative Fiscal Division Budget Analysis, Volume 5.

The Reclamation and Development Grants Program (RDGP) is designed to fund projects that:

“..indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana” (90-2-1102, MCA).

As provided in statute, projects approved in the RDGP are intended to:

- Repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- Develop and ensure the quality of public resources for the benefit of all Montana citizens

The RDGP is administered by DNRC, which solicits, evaluates, and ranks applications on a biennial basis. Those eligible to apply for grants include state and local governments, political subdivisions, and tribal governments. Applications are evaluated according to specific criteria related to:

- Public benefit
- Need and urgency
- Appropriateness of technical design
- Financial feasibility
- Project management/organization

DNRC forwards a list of recommendations to the executive, who reviews the list and submits funding recommendations to the legislature for appropriation. No grant may exceed \$300,000.

EXECUTIVE RECOMMENDATION

Figure 14 shows a priority listing of the RDGP grants recommended by the executive for the 2011 biennium. DNRC received 29 applications requesting total grants of \$7.8 million. The RDGP recommends a list of 25 projects at a cost of \$6.7 million for the 2011 biennium. Of the 25 recommended projects, the DNRC estimates funding will be available for 19 projects, at a cost of \$5.0 million. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for \$600,000 in grants (projects ranked 1 and 2) and to any government entity for abandoned mine reclamation projects for \$800,000 in grants (actual authorization of \$900,000 for projects ranked 8, 11, and 15) over the biennium. The remainder, approximately \$3.5 million, is recommended for other reclamation and development projects. Project grants are matched by non-RDGP funds from a variety of state, federal, private, and local sources. An additional appropriation of \$800,000 is proposed to fund project planning grants.

Reclamation and Development Grants (RDGP) 2011 Biennium				
Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
1	Montana Board of Oil and Gas 2009 Northern District Orphaned Well Plug & Abandonment & Site Restoration	\$300,000	\$300,000	\$300,000
2	Montana Board of Oil and Gas 2009 Southern District Orphaned Well Plug & Abandonment & Site Restoration	300,000	300,000	600,000
3	MT DNRC-Trust Land Management Division Reliance Refinery	300,000	300,000	900,000
4	* City of Shelby Shelby Refinery	300,000	300,000	1,200,000
5	* Missoula County St. Louis Creek Mine Reclamation	300,000	300,000	1,500,000
6	MT - Department of Environmental Quality Spring Meadow Lake Reclamation Project	300,000	300,000	1,800,000
7	* Cascade County Commission County Shops Remediation of Wood Treatment Preservatives	300,000	300,000	2,100,000
8	MT - Department of Environmental Quality McLaren Tailings Reclamation Project	300,000	300,000	2,400,000
9	* City of Lewistown** Reclamation of Berg Lumber Site	220,590	300,000	2,700,000
10	* Town of Ryegate Former Ryegate Conoco	259,200	259,200	2,959,200
11	MT - Department of Environmental Quality Emery Reclamation Project	300,000	300,000	3,259,200
12	* Park County Fleshman Creek Urban Restoration Project	300,000	300,000	3,559,200
13	* Butte-Silver Bow City-County Government Butte Mining District-Reclamation and Protection Project	300,000	300,000	3,859,200
14	* Missoula County Ninemile Creek Mining District Reclamation	200,800	200,800	4,060,000
15	MT - Department of Environmental Quality Beal Mountain Mine: Waste Rock Dump Soil Cover	300,000	300,000	4,360,000
16	* Lewis & Clark Conservation District York Gulch Old Amber Mine Reclamation Project	83,207	83,207	4,443,207
17	* Ruby Valley Conservation District Big Hole Cooperative Ditch Improvement Project	239,658	239,658	4,682,865
18	MT DNRC-Water Resources Division** Monitoring Coal-Bed Methane Development Effects on Surface Water Quality of the Tongue & Powder River	300,000	195,000	4,877,865
19	Montana Public Service Commission** Geologic Evaluation of Potential Sites for Compressed Air Energy Storage in Montana	293,460	135,000	5,012,865
Projects below this line are recommended only with available funding				
20	Flathead Basin Commission Flathead Lake Mapping Project	294,977	294,977	5,307,842
21	Jefferson County Ground-Water Quality Assessment with Emphasis on Radionuclides	300,000	300,000	5,607,842
22	Meagher County Conservation District Hydrologic Framework & Water Budget of the Upper Smith River Watershed, Meagher County	300,000	300,000	5,907,842
23	Custer County Conservation District** Yellowstone River Riparian Restoration Project	299,926	177,881	6,085,723
Sub-Total:		6,391,818	6,085,723	

Figure 14 (continued on next page)

Reclamation and Development Grants (RDGP) 2011 Biennium				
Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
	Balance:	6,391,818	6,085,723	
24	Cascade County Commission Sustainable Water Supplies from the Madison Aquifer, Central Montana	290,817	286,792	6,372,515
25	Butte-Silver Bow City-County Government Irrigation Demonstration Project for Butte Acidic Mine Waters-On-Site Treatment & Resource Recovery	289,607	289,607	6,662,122
Projects below this line are not recommended for funding				
26	Carter County Conservation District Ground-Water Monitoring Near a Proposed in Situ Uranium Mine in	295,407	0	6,662,122
27	MT - Department of Environmental Quality Systematic Statewide Reconnaissance of Occurrence & Effects of	300,000	0	6,662,122
28	Flathead County Flathead Regional Wastewater Management Group (FUNDED BY	89,983	0	6,662,122
29	Montana Bureau of Mines and Geology Assessment of Deep Coals in Eastern Montana-Potential Targets for	159,784	0	6,662,122
Total R&D Grants Requested/Recommended		<u>\$7,817,416</u>	<u>\$6,662,122</u>	
* Indicates project planning grant recipients				

Figure 14 (continued from previous page)

**LFD
COMMENT**

New Funding Account: Funding for both the RRGL program and the RDGP program was revised with the passage of HB 116 in the 2007 regular session. HB 116 repealed 85-1-604, MCA and 90-2-1104, MCA, which established the state special revenue account that funded the two grant programs. The legislation replaced the state special revenue accounts with one joint account, statutorily required by 15-38-302, MCA. The new account will be used to fund several natural resource programs including the renewable resource grant program, the reclamation and development grant program, the irrigation grant program, the water projects private grant program, and various natural resource project requests.

FUNDING: NATURAL RESOURCE PROJECTS ACCOUNT

The natural resource projects account funds appropriations for natural resource grants authorized by the legislature in the RRGL and the RDGP, as well as various other natural resource programs. The account receives the income from the following sources:

- o Interest income of the resource indemnity trust fund as provided in and subject to the conditions of 15-38-202, MCA (\$3.5 million each fiscal year for the purpose of making grants)
- o Resource indemnity and ground water assessment tax under provisions of 15-38-106, MCA (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and \$366,000 to the groundwater assessment account, for the purpose of making grants)
- o Oil and gas production tax as provided in 15-36-331, MCA (1.45% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3), increases to 2.16% in July, 2011)
- o Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)

As shown in Figure 15, the natural resource project account will have a beginning fund balance of \$2.4 million in the 2011 biennium. This beginning fund balance is primarily the result of greater than anticipated revenues from the oil and natural gas tax. Revenues for the biennium are expected to be \$12.0 million.

Appropriations from the natural resource projects account are authorized in Title 15, Chapter 38, MCA. The new statute states, "Appropriations may be made from the natural resources projects state special revenue account for

grants and loans for designated projects and the activities authorized in 85-1-602 and 90-2-1102", the RRGL and RDGP programs. In the 2011 biennium, the executive budget recommends total appropriations of \$6.3 for RRGL program \$5.8 million for the RDGP program from the natural resource projects account. The resulting ending fund balance is estimated to be \$2.2 million.

Natural Resource Project Account	
Fund Balance Projection 2011 Biennium	
Estimated Beginning Fund Balance (7/1/2009)	\$2,384,300
Revenue Projections ¹	
Resource Indemnity Trust Interest	\$7,000,000
RIGWA Tax	1,640,844
Oil and Natural Gas Tax	3,298,265
Excess Coal Tax Proceeds	0
Loan Re-payment	500
Administrative Fees	30,000
2011 Biennium Revenues	\$11,969,609
HB 6 Appropriations ²	
Emergency Grants	(\$100,000)
Project Planning Grants	(800,000)
Irrigation Development Grants	(300,000)
Water Project Private Grants	(50,000)
Proposed RRGL Grants	<u>(5,071,578)</u>
Total RRGL Appropriations	<u>(\$6,321,578)</u>
HB 7 Appropriations ³	
Project Planning	(\$800,000)
Reclamation and Development Grants	<u>(5,012,865)</u>
Total RDGP Appropriations	<u>(\$5,812,865)</u>
Estimated Ending Fund Balance (6/30/2011)	<u>\$2,219,466</u>
¹ RTIC recommendations	
² Executive grant proposal, HB 6	
³ Executive grant proposal, HB 7	

Figure 15

**LFD
COMMENT**

2011 Biennium Beginning Fund Balance: The natural resource projects account is expected to have a significant beginning balance, \$2.4 million, for the 2011 biennium. The beginning balance primarily results from larger than anticipated deposits of oil and natural gas taxes, deposited in the account in the 2009 biennium.

The 60th Legislature chose to fund all RRGL grants recommended for the 2009 biennium. However, the program lacked sufficient funds for the entire list of recommended projects. Consequently, the legislature funded \$2.2 million of RRGL local government grants with a grant from the Treasure State Endowment Program (TSEP). The grant to the RRGL created an unexpected grant cost to the TSEP, and in order to provide the \$2.2 million grant, the program will be required to cover the costs with a loan from the Board of Investments. The loan will create long-term future costs that will need to be repaid with future TSEP interest earnings.

The FY 2007-2008 interim Legislative Finance Committee (LFC) appointed a workgroup to analyze issues related to the potential TSEP loan. In relation to the TSEP funding issue, the workgroup made one recommendation to the LFC, which stated that the 2011 beginning fund balance expected in the natural resource projects fund is recommended to be used to reduce the TSEP grant to the RRGL program. The LFC agreed with the recommendation and included it in the LFC recommendations to the House Appropriations Committee and the Senate Finance and Claims Committee. The Long-Range Planning Subcommittee may wish to discuss using the 2011 beginning fund balance in the natural resource projects fund to reduce the TSEP grant to the RRGL program.

CULTURAL AND AESTHETIC GRANT PROGRAM

PROGRAM DESCRIPTION

The Cultural and Aesthetic Grant Program, as provided in Title 22, Chapter 2, part 3, MCA, is administered by the Montana Arts Council (MAC). Investment earnings from a statutory trust, which receives coal severance tax revenues, fund the grant program.

By statute, the interest from the cultural trust is to be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects, 15-35-108, MCA.

Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana and regional, county, city, town, or Indian tribal governments. A 16-member Cultural and Aesthetic Projects Advisory Committee, with eight members appointed by the Montana Arts Council and eight appointed by the Montana Historical Society, reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the executive budget. All grants require legislative approval in accordance with 22-2-306 through 309, MCA.

Cultural and Aesthetic Grant Program Trust and Appropriation Statistics by Biennia							
	Bien	Cultural Trust Balance ¹	Trust Earnings	Percent Change	Total Appropriated - Recommended	General Fund Appropriated for Grants	Projects Funded
A	1993	\$6,863,579	\$1,274,749		\$1,551,323		88
A	1995	7,296,373	990,551	-22.29%	1,706,735		93
A	1997	3,845,925	1,086,283	9.66%	857,926		77
A	1999	3,852,202	592,803	-45.43%	1,489,453		79
A	2001	4,257,671	540,097	-8.89%	634,939	\$600,000	76
A	2003	4,454,456	619,486	14.70%	705,425	532,575 ²	74
A	2005	4,907,330	644,017	3.96%	659,000	499,150	81
A	2007	8,787,534	962,739	49.49%	1,371,020	100,275	84
F	2009	10,848,527	1,218,000	26.51%	1,148,033		82
F	2011	11,442,527	1,321,000	8.46%	1,268,756 ³		92
¹ Biennium End							
² \$198,575 of general fund support replaced with lodging facility tax in FY 2003							
³ Executive proposal							

Figure 16

Figure 16 provides an historic perspective of the Cultural and Aesthetic Grant Program. As mentioned above, the trust provides interest earnings to fund the C&A program. Currently, the balance of the trust is approaching \$10.8 million and is expected to grow to \$11.4 million by the end of the 2011 biennium. As seen in the table, the fund balance was significantly reduced when the trust corpus was used to fund the purchase of Virginia and Nevada Cities. In the 2007 and 2009 biennia, the fund balance was replaced by transfers from the general fund, with trust deposits of \$3.4 million and \$1.5 million, respectively. With the funding of 92 grants in the 2011 biennium, there has only been one instance when more grants were funded. In the table above, projects are funded from the C&A account unless otherwise noted.

LFD COMMENT

Cushion: In past biennia, the C&A grant program has experienced interest earnings that have not kept pace with legislative appropriations. When revenue shortfalls occur, language contained in the C&A appropriation bill has provided for a reduction of grants, those awards greater than \$4,500, on a pro-rata basis. While some grant recipients are able to absorb the lower grant terms, in a number of cases program plans for the grant dollars are established and irreversible, causing financial harm to the recipient. To mitigate the negative effects of interest income shortfalls, the 60th Legislature allowed a "cushion" of 3.5 percent of all grant awards as an ending fund balance in the C&A grants fund. The 61st Long-Range Planning Subcommittee may wish to consider providing a "cushion" or ending fund balance in the C&A grants fund (02009).

EXECUTIVE RECOMMENDATION

The executive recommendation for Cultural and Aesthetic grants will be introduced in the C&A bill, typically designated HB 9. The first C&A priority recommended for funding is a \$30,000 appropriation to the Montana Historical Society for the care and conservation of capitol complex artwork, in accordance with 2-17-805, MCA.

The second priority is 92 C&A grant awards totaling \$809,400. The recommended awards are listed in Figure 17 in priority order within four categories, which include Special Projects less than \$4,500, Special Projects greater than \$4,500, Operational Support Projects, and Capital Expenditure Projects. In the 2011 biennium there are no projects recommended in the fifth, "Challenge Grant", category.

Cultural and Aesthetic Grants (C&A)						
2011 Biennium						
Grant Rank	Grant Number	Applicant		Grant Requested	Grant Recommended	Cummulative Total
Special Project < \$4500						
1	1406	Upper Swan Valley Historical Soc	Operational Support: Hiring a Coordinator	\$4,400	\$3,500	\$3,500
2	1407	Yellowstone Ballet Company	Pinocchio Ballet	4,500	4,500	8,000
3	1405	Signatures from Big Sky	Signatures from Big Sky	4,500	4,500	12,500
4	1404	Sanders County Hist Soc/USFS Region 1	The Big Blow Up Commemorative	4,500	4,500	17,000
5	1402	Miles City Speakers Bureau	Annual Season of Speakers	4,000	4,000	21,000
6	1403	Montana Storytelling Roundup, Inc.	Montana Storytelling Roundup, Inc.	4,500	4,500	25,500
7	1401	Granite Co Museum & Cultural Ctr	Windows and Operating Expenses	4,500	2,000	27,500
8	1400	Council for the Arts, Lincoln	Arts and Education	<u>2,500</u>	<u>1,800</u>	29,300
Total Special Projects < \$4500				\$33,400	\$29,300	
Special Project > \$4500						
SSO1	1432	Montana Alliance for Arts Ed	Professional Development in Arts Education	\$8,566	\$5,000	34,300
1	1418	Glacier National Park	Walking Tour of the Belton Historic District	4,923	4,900	39,200
2	1424	Humanities Montana	Speakers Bureau	75,000	13,900	53,100
3	1430	Missoula Art Museum	Montana Triennial Project	27,000	12,000	65,100
4	1440	Russell Museum	C.M. Russell Museum Educational Programming	60,000	13,900	79,000
5	1414	CoMotion Dance	CoMotion Performances in Montana	17,477	6,000	85,000
6	1408	Alpine Artisans, Inc	Expding Cult Tour:S-S-Blackfoot Cultural Arts Corridor	16,400	7,300	92,300
7	1416	Fort Peck Fine Arts Council	Fort Peck Performing Arts Project	40,000	11,000	103,300
8	1411	Butte Silver Bow Public Archives	Document Processing Project	36,000	14,000	117,300
9	1436	Museum of the Rockies	The Great Masters: Goya and da Vinci	30,000	10,000	127,300
10	1421	Headwaters Dance Co	Montana Suite Tour	25,000	10,000	137,300
11	1410	Butte Citizens Pres & Revitalization	Butte Citz for Preserv & Revitaliz	21,000	8,400	145,700
12	1426	KUFM Montana Public Radio	The Write Question	23,976	10,000	155,700
13	1423	Hockaday Museum of Art	Bridges of Understanding	60,000	10,400	166,100
14	1427	Livingston Depot Foundation	"Sweat and Steel": exhibition and outreach program	24,000	5,000	171,100
15	1415	Emerson Cultural Center	Schools in the Gallery: Exhibits	21,270	8,400	179,500
16	1417	Friends of Museum of Plains Indian	FY10-11 Program Support	9,000	3,000	182,500
17	1425	International Choral Festival	Choir Outreach Tours	6,840	6,200	188,700
18	1412	Butte Silver Bow Public Library	Butte Digital Image Project	38,060	5,000	193,700
19	1433	Montana Historical Society	Barns of the Big Sky	45,127	10,400	204,100
20	1428	Mai Wah Society/ Museum	New Staff Support	22,341	6,000	210,100
21	1435	Montana Museum of Art & Culture	Fra Dana Biography	25,500	10,700	220,800
22	1437	Musikanten Montana	Montana Early Music Festival	16,000	2,000	222,800
23	1409	Big Sky Repertory Theatre	Staff Expansion: Development & Educational Outreach	24,368	10,700	233,500
24	1434	Montana Mandolin Society	Misson Vally Music History Project	8,000	2,000	235,500
25	1438	North Valley Music School	North Valley Music School Fundraising Staff Expansion	20,000	9,300	244,800
26	1413	Butte Symphony Assoc	Revitalization Through Strategic Planning	5,388	1,000	245,800
27	1419	Glacier Symphony & Chorale	Festival Amadeus	23,000	7,500	253,300
28	1420	Hamilton Players, Inc	Sustaining Cultural and Econ Health in Western MT	24,867	5,000	258,300
Projects below this line are not recommended for funding						
29	1442	Yellowstone Chamber Players	Chamber Music Concerts in Rural Communities	13,300	0	258,300
30	1441	U of M Western	TRADE WINDS Educational & Community Program	7,800	0	258,300
31	1443	Youth Arts in Action	Ballet Master Classes	19,160	0	258,300
32	1439	Powell County Museum & Arts Fndn	Montana Shakespeare in the Parks	1,350	0	258,300
33	1422	Helena Symp Orchestra & Chorale	Annual evening at the Opera	40,000	0	258,300
34	1431	Missoula Community Access TV	Missoula Cultural: Scene and Heard	12,000	0	258,300
35	1429	Mainstreet Uptown Butte, Inc.	National Folk Festival in Butte, MT 2009-2010	<u>40,000</u>	<u>0</u>	258,300
Total Special Projects > \$4500				\$892,713	\$229,000	

Figure 17
(continued on next page)

Cultural and Aesthetic Grants (C&A)						
2011 Biennium						
Grant Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total	
Balance:					\$258,300	
Operational Support						
SSO-1	1467	Montana Arts	Operational Support	\$12,000	\$9,000	267,300
SSO-2	1475	Museums Assoc of Montana	Operational Support	20,000	12,500	279,800
SSO-3	1468	Montana Dance Arts Association	Operational Support	13,500	9,000	288,800
SSO-4	1469	Montana Performing Arts Consortium	Operational Support	39,000	15,000	303,800
SSO-5	1472	MT Assoc of Symph Orchestras (MASO)	Operational Support	27,400	12,500	316,300
SSO-6	1473	Museum & Art Gallery Director's Assoc	Operational Support	30,000	12,000	328,300
SSO-7	1470	Montana Preservation Alliance	Operational Support	40,000	12,000	340,300
1	1483	Shakespeare in the Parks	Operational Support	40,000	10,400	350,700
2	1448	Big Horn Arts & Crafts Assoc	Operational Support	20,000	13,500	364,200
3	1488	Western Heritage Center	Operational Support	40,000	10,400	374,600
4	1460	Holter Museum of Art	Holter Museum of Art Education Prog	60,000	15,000	389,600
5	1462	MCT, Inc	Putting MT Youth Center Stage by Putting ON Stage	40,000	12,000	401,600
6	1444	Alberta Bair Theater	Operational Support	25,000	11,100	412,700
7	1447	Beaverhead Co Museum	Operational Support	20,000	12,000	424,700
8	1445	Archie Bray Foundation	Moving Toward Sustainability - Operating Support	50,000	10,400	435,100
9	1446	Art Mobile of Montana	Operational Costs for Art Mobile of Montana	30,000	13,300	448,400
10	1449	Billings Symphony Society	BSO&C Operational Support	25,000	15,000	463,400
11	1492	Yellowstone Art Museum	Art as a Nexus for Growth	90,000	13,900	477,300
12	1458	Great Falls Symphony	Education and Outreach	20,000	10,000	487,300
13	1457	Grandstreet Theatre	Focus on Youth	36,500	9,000	496,300
14	1461	Intermountain Opera Assoc	Operational Support	20,000	7,500	503,800
15	1482	Schoolhouse History & Art Center	Operational Support	70,912	20,000	523,800
16	1459	Helena Presents/Myrna Loy Center	Operational Support	32,000	12,000	535,800
17	1455	Custer County Art Center	"Avenues to Education - Through the Arts"	32,000	15,000	550,800
18	1485	Sunburst Community Foundation	Arts Director Operational Support	18,310	8,000	558,800
19	1478	Pondera Arts Council	Operational Support	20,000	5,900	564,700
20	1480	Rimrock Opera Company	Building Capacity	21,000	5,900	570,600
21	1453	Carbon Co Historical Society	Operational Support	25,000	13,300	583,900
22	1479	Pondera Historical Association	Operational Support	25,000	8,000	591,900
23	1466	Montana Ag Center & Museum	Operational Support	24,000	9,000	600,900
24	1456	District 7 HRDC Growth Thru Art	Growth Thru Art	30,000	13,300	614,200
25	1487	VSA Arts of Montana	Cultural Access for People with Disabilities	13,050	8,000	622,200
26	1491	Writer's Voice (Billings YMCA)	Literature for all Montanans	31,000	13,700	635,900
27	1481	Rocky Mountain Ballet Theater	Operational Support	33,000	7,000	642,900
28	1477	Paris Gibson Sq Museum of Art	Operational Support	60,420	13,900	656,800
29	1450	Bozeman Symphony Society	Community Outreach Program	20,000	9,000	665,800
30	1452	Carbon Co Arts Guild & Depot	Staff Support	28,800	9,600	675,400
31	1465	MonDak Historical & Art Society	Op Support / HistoricalPreservation / Programming	30,940	10,300	685,700
32	1464	Missoula Cultural Council	Operational Support: Technology and Education	8,000	3,000	688,700
33	1463	Mission Valley Friends of the Arts	Part-time Administrative Director	6,000	2,000	690,700
34	1451	Butte Center for the Perf Arts	Butte Center for the Performing Arts	30,000	10,000	700,700
35	1486	Vigilante Theatre Company	Montana Touring Support and Community Outreach	15,000	6,000	706,700
36	1454	Copper Village Museum & Arts Cntr	Operational Support	28,505	9,500	716,200
37	1474	Museum of Beartooths/Stillwater Hist Soc	Operational Support	20,000	10,000	726,200
38	1484	Southwest MT Arts Council	Operational Support	30,459	10,000	736,200
39	1490	World Museum of Mining	Operational Support	25,000	11,100	747,300
40	1489	Whitefish Theatre Company	Whitefish Theatre Co.: Center Stage 30 Years	30,000	10,000	757,300
Projects below this line are not recommended for funding						
41	1471	Montana Repertory Theatre	Taking Big Theatre Across The Big Sky	20,000	0	757,300
42	1476	NW MT Hist Soc Museum -Central School	Operational Support	36,000	0	757,300
Total Operational Support				\$1,462,796	\$499,000	

Figure 17
(continued on next page)

Cultural and Aesthetic Grants (C&A)						
2011 Biennium						
Grant Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total	
Balance:					\$757,300	
Capital Expenditure						
1	1503	Sanders County	High Bridge Renovation, Thompson Falls	\$25,000	\$11,100	\$768,400
2	1501	Polson-Flathead Historical Museum	Museum Renovation & Installation of Environ Controls	25,000	10,000	778,400
3	1494	Billings Preservation Society	Condition Assess & Repair-Moss Mansion	54,926	12,000	790,400
4	1495	City of Great Falls/Mansfield Center	Theater Sound System Renovation	7,500	5,000	795,400
5	1497	City of Shelby	Champions Park	45,000	5,000	800,400
6	1499	Mineral Co. Museum & Historical Society	Public Access & Heritage Research Center	4,500	2,000	802,400
7	1502	Ravalli County Museum	Preserving a Multi-Media History of Western Montana	14,150	5,000	807,400
8	1498	Clay Arts Guild of Helena	High Fire Kiln	4,500	2,000	809,400
Projects below this line are not recommended for funding						
9	1496	City of Helena Civic Center	Civic Center Project Safe Access Improvements	35,250	0	809,400
10	1500	Old Trail Museum	Old Trail Museum: Grizzly Traps and History	4,500	0	809,400
11	1493	Arts Council of Big Sky	Big Sky Performing Arts Center Amphitheater	31,125	0	809,400
Total Capital Expenditure				\$251,451	\$52,100	
Total C&A Grants Requested/Recommended				\$2,640,360	\$809,400	\$809,400

Figure 17
(continued from previous page)

FUNDING

The cultural trust receives a statutory 0.63 percent of coal severance tax revenues, but that proportion has changed numerous times since the corpus reduction of 1997. To compensate for the lost interest earnings related to the use of the cultural trust corpus to purchase Virginia and Nevada Cities, the 1997 Legislature allocated 0.87 percent of coal severance tax revenue to the C&A project account for the 1999 biennium only. In FY 2000, the coal severance tax allocation to the cultural trust was returned to 0.63 percent. In FY 2002 two actions affecting the grant program were taken to increase revenues to the general fund. First, the C&A project grants were reduced by \$25,000. Next, the distribution from the coal severance tax was diverted out of the cultural trust and into the general fund. The elimination of the flow caused a reduction in interest available for FY 2003. Additionally, during the special session of August 2002, general fund support of \$198,575 in FY 2003 was replaced with lodging facility use tax revenue. In the 2011 biennium, the interest income from the cultural trust represents the only statutory funding for the C&A grant program.

Figure 18 shows the projected fund balance for the 2011 biennium. Based on the assumptions adopted by the Revenue and Transportation Interim Committee (RTIC), interest earnings of the cultural trust will total \$1.3 million for the 2011 biennium. The executive budget includes \$429,785 for administrative expenses and the folklife program (as appropriated in the general appropriations act), \$30,000 for a statutorily required appropriation for capitol complex works of art, and grant funding proposals of \$809,400. Using the RTIC revenue estimates and the executive budget proposals, the ending fund balance is projected to be \$123,225. This balance represents 9.3 percent of biennial revenues, which should be efficient in the event of a revenue shortfall.

Cultural & Aesthetic Grant Fund (02009) Fund Balance Projection, 2011 Biennium	
Estimated Beginning Fund Balance (7/1/2009)	\$71,410
Revenue Projections ¹	
FY 2010 Investment Earnings	\$650,000
FY 2011 Investment Earnings	<u>671,000</u>
2011 Biennium Revenues	\$1,321,000
Proposed Expenditures	
Administration and Folklife ²	(\$429,785)
Capitol Complex Works of Art	(30,000)
Grants ³	<u>(809,400)</u>
Total Expenditures	(\$1,269,185)
Estimated Ending Fund Balance (6/30/2011)	\$123,225
¹ RTIC recommendations	
² Executive general appropriations act proposal	
³ Executive grant proposal	

Figure 18

QUALITY SCHOOL FACILITIES PROGRAM

NEW PROGRAM PROPOSAL

The executive budget includes a proposal for a new program, the Quality School Facilities Grants Program (QSFP), which is intended to help the K-12 school districts to address facility deficiencies and improve technological access. The program will facilitate work at K-12 school facilities. The facility work will be in part based on the recommendations provided in the K-12 facility condition and needs assessment and energy audit, a study required in HB 1 of the December 2005 Legislative Special Session.

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the QSFP budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the QSFP program reduced funds flowing into the Quality School Facility Fund by \$8.5 million, in the 2011 biennium. The reduction represents a 13.2 percent decrease in total funds for the 2011 biennium.

LFD ISSUE

Lack of Information: The executive budget contained very little detail for this new program proposal. The executive recommendation included a single paragraph, which provided a general overview of the purpose and vague references to the proposed funding. After meeting with the executive, some detail was obtained in order to provide this minimal level of analysis for the new proposal.

The executive budget proposes creating a grant program, similar to the Treasure State Endowment Program (TSEP) and administering the program through the Department of Commerce (DOC). As in the TSEP, the future QSFP would rank grants, using a yet to be determined set of conditions and criteria. Grants would be available through an application process, which would be made available to all of the 421 school districts across the state.

The program would be structured to meet several goals, which include:

- Enhance the quality of life and protect the health, safety, and welfare of Montana's public school students
- Ensure the successful delivery of an educational system that meets the accreditation standards provided in 20-7-111
- Extend the life of Montana's existing public school facilities
- Promote energy conservation and reduction
- Integrate technology into Montana's education framework to support student educational needs for the future
- Promote fiscally responsibility considering both the short-term and long-term needs of the public school district, the local community, and the state

Some of the conditions recommended in ranking the grant applications might include:

- Health and safety condition of the facility
- Energy efficiency of the facility
- Current state of IT infrastructure
- Financial need of the district
- Financial feasibility of the project

Grants would be distributed to the successful applicants on a reimbursement basis.

LFD ISSUE

No Project Recommendations: The executive budget did not include a plan for QSFP grant issuance in the 2011 biennium. Consequently, the Legislative Fiscal Division has no information to determine how much of K-12 facility needs will be addressed with the available and proposed funding in the 2011 biennium.

**LFD
COMMENT**

K-12 Facility Condition and Needs Assessment and Energy Audit: During the 2007-2008 interim, the Department of Architecture and Engineering Division (A&E) of the Department of Administration (DOA) completed a study titled, the "K-12 Facility Condition and Needs Assessment and Energy Audit" study, and presented the results to the interim Legislative Finance Committee (LFC).

The K-12 study provided data on school facility condition by district. The study was commissioned to identify areas of fatigue and failure and provide allowance recommendations that reflect a replacement in-kind. Two of the 421 districts had no deficiencies at the time of the assessment, and the assessment found three vacant facilities.

According to the results of the study, there is a total need in K-12 facilities of \$359.1 million of improvements. The study classified need in seven categories which included (dollars in millions):

- \$0 - Life Safety—an immediate threat to life safety or building integrity
- \$155.9 - Damage/Wear Out-broken, vandalized, worn out to inoperable degree, difficult to service, lacking integrity
- \$4.4 - Code Compliance-systems observed to be out of code compliance and not grandfathered
- \$54.8 - Environmental-failures/conditions affecting indoor environment, including building shell and indoor space condition
- \$87.2 - Energy-improvements on components or systems for energy efficiency
- \$0 - Aesthetics-items aged, dated, or worn (excluded because of subjectivity concerns)
- \$56.7 - Other-not in compliance with code but grandfathered (will need to be addressed in the future, but are not generally considered current obligations or deficiencies)

The budget estimates included in the K-12 study for repair of a given facility system are taken directly from the facility condition database, developed in the K-12 study, and uses a square foot cost analysis to determine the estimated cost. Facility improvement costs were provided through the study as a representative measure of project costs. The cost is provided in 2007 dollars, and the information needed to determine the cost changes driven by construction inflation/deflation for 2008 is not yet available.

Quality School Facilities Program: When the results of the K-12 Facility Condition and Needs Assessment and Energy Audit study were heard, the LFC was also informed of monies, set aside by the 60th Legislature for K-12 facility condition improvements. Upon hearing of the executive's concept for a TSEP-like K-12 facility grant program, the LFC recommended that this program be brought before the Long-Range Planning Subcommittee (LRP).

The LRP will need to determine if program development should be tasked to them as opposed to one of the larger committees. There will be a number of components for consideration in the program development. Should the LRP decide to accept the challenge of developing the program, a few of the many issues to consider would be:

- Program Requisites – Will the program rely on local contractors to undertake the projects and will local contractors be required to adhere to the state contract requirements
- Who would best administer the QSFP – The DOC has expertise in the administration of grant programs while the DOA has expertise in building and IT programs
- Who offers the least cost – Least cost administration would allow more funds for projects
- How much local (district) match would be required
- What are the proper program parameters – The program will require parameters related to the application and ranking processes
- Matching Funds – Should school districts be required to provide a match to grant funding

FUNDING

In the May 2007 Special Session, the legislature passed SB 2, which created a new school facility improvement account, in 20-9-516, MCA. The account was established to provide money to schools to implement the recommendations of the school facility condition and needs assessment and energy audit mentioned above. The monies deposited in the account may be used for major deferred maintenance, improving energy efficiency in school facilities, or critical infrastructure in school districts. The account has only one source of income at this time. SB 2 provided a short-term source of income for the purposes of the account, royalties from mineral development on state lands. By the end of FY 2010, the royalty income is estimated to be \$52.4 million. The school facility improvement account will not receive future flows of royalty income.

As shown in Figure 19, the executive budget recommends the addition of several new sources of income for the purpose of school facility improvements, which include the revenue from "streambed rents" (proposed to begin in FY 2012 under the executive budget revisions of Dec. 15, 2008), revenue from timber harvests on state lands in excess of 18 million board feet, and the revenue from new income generating lands. Streambed rents are revenue derived from energy companies who are expected to pay rental fees for the use of streambeds in their operational activities. For more information regarding these two flows of income to the school facility improvement account, refer to the "LFD Issue" on page E-44 of the Legislative Fiscal Division Budget Analysis, Volume 7.

The revenue from timber harvests on state lands in excess of 18 million board feet has traditionally been used to purchase technology for school districts. Revenue flows have varied between almost nothing to around \$2 million per year. The timber money is currently distributed as the district general fund BASE budget is distributed. Assuming that legislation requesting the funding changes is passed and approved, total revenues from all sources (including the unexpended flow of mineral royalties in the 2009 biennium) in the 2011 biennium is estimated to be \$56.0 million.

The proposal would fund both the administrative and the project costs of the program. The administrative costs are expected to be \$800,000 for the biennium, and would be appropriated in the QSFP bill. In future biennia, the appropriation would be made in the general appropriation act (HB 2). The executive budget proposal did not recommend projects, and as a result, there is \$55.2 million available for projects in the 2011 biennium.

School Facilities Improvement Account (02218)			
Fund Balance Projection 2011 Biennium			
	FY 2010	FY 2011	Total
Estimated Beginning Fund Balance (7/1/2009)			\$38,740,857
Revenue Projections ¹			
Common School Royalty Distributions	\$13,702,992	\$0	\$13,702,992
Proposed New Funding ²			
Streambed Rents ³	\$0	\$0	
Timber Revenues ¹	2,721,914	799,554	
Total Proposed New Funding	\$2,721,914	\$799,554	\$3,521,468
Total 2011 Biennium Proposed Revenues			\$55,965,317
Proposed Expenditures ²			
Administration - DOC	(\$400,000)	(\$400,000)	(\$800,000)
Total Funds Available For Projects			\$55,165,317
¹ Based on RTIC estimates			
² Based on executive budget proposal			
³ Eliminated in the Dec. 15, 2008 executive budget revisions			

Figure 19

LFD ISSUE

K-12 Improvements: Given the results of the K-12 Facility Condition and Needs Assessment, with an estimate of total facility improvements needs of \$395.1 million, and in consideration program revenues proposed in the executive budget (from streambed rents and timber revenues), the initial projection of funds would address about 14 percent of the total K-12 facility needs. Future revenues, without consideration to growth in program revenues, are estimated to be approximately \$5.0 million per year or \$10 million each biennium. These estimates suggest that it would take over 33 biennia (66 years) for the proposed revenues to meet the K-12 facility needs, before consideration of construction inflation/deflation.

New QSFP Funding Proposal

The executive budget includes a proposal for the purchase of income-generating real property for the QSFP. This proposal would create a new source of revenue for public school facilities.

NOTE: The Legislative Fiscal Division analysis of the new QSFP funding proposal has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the QSFP income generating land proposal was reduced by \$4.0 million, or 16 percent. The reduced amount of bond authority being requested will also reduce the associated debt service. The estimated amount of debt service for the QSFP land purchase is reduced by approximately 48.1 percent in the 2011 biennium.

The proposal, which is expected to be introduced in HB 14, would request \$21 million in bond proceeds for the acquisition of new lands. The proposed bond issue would be for a general obligation bond, with debt service of \$0.4 million in FY 2010 and \$0.9 million in FY 2011 that is paid by statutory appropriation from the state general fund. The debt service projections assume a 5.1 percent rate of interest on bonds with a 20 year life. The land purchase is expected to be made in two parts, with the first purchase occurring in FY 2010.

The executive budget did not contain any detail related to what land would be purchased for the provision of funding for the QSFP, and consequently, there is no way to determine what revenues would be provided from the land in the 2011 biennium.

LFD COMMENT

Land Purchases: The Long-Range Planning Subcommittee may wish to request information from the executive concerning the HB 14 land acquisition. The executive budget did not contain any information related to the purchase of land for the purpose of providing funds for the QSFP. Without this information, there is no way to determine what the future revenue stream of the acquisitions might be.

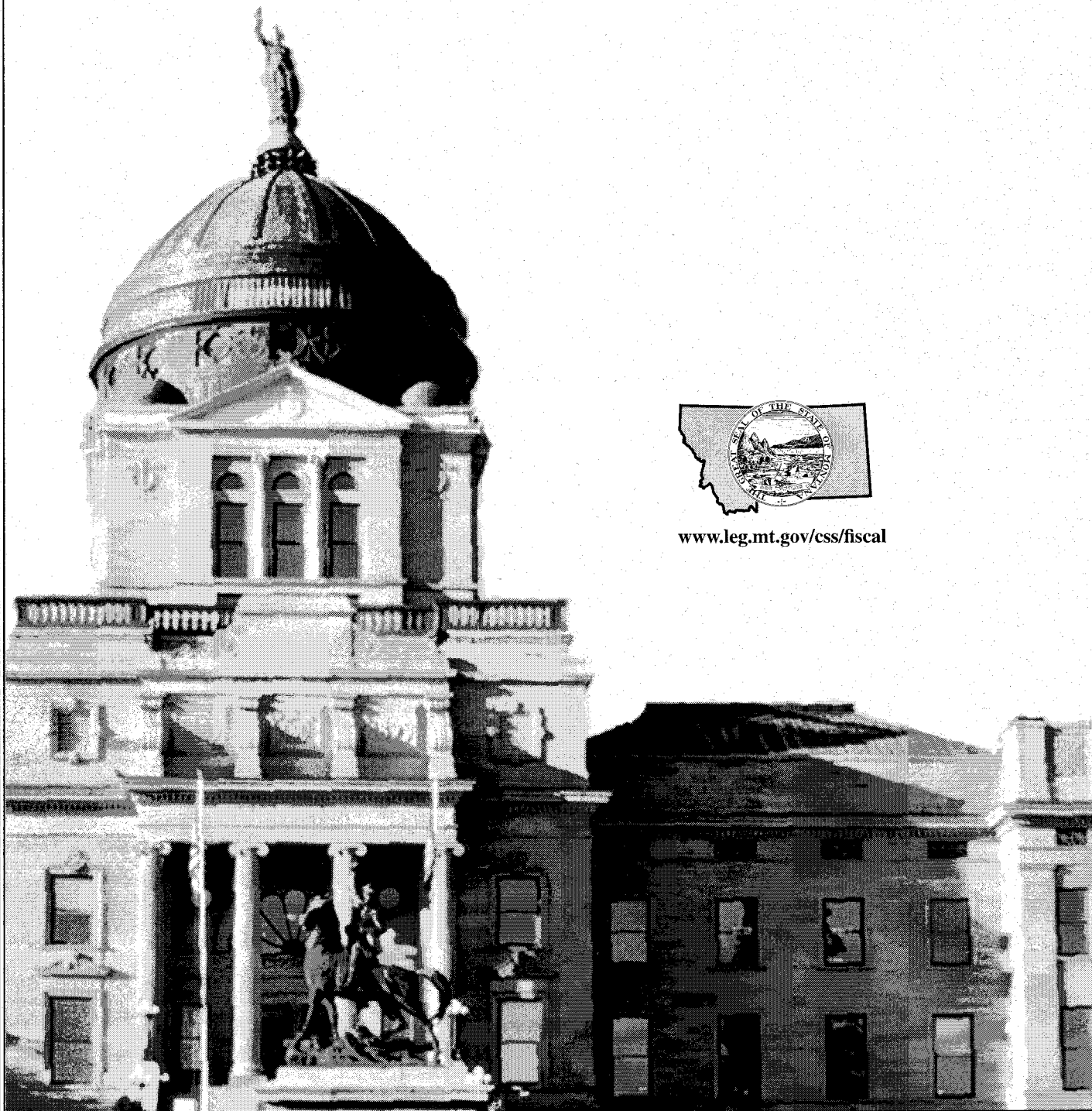
LFD COMMENT

- Development of Program Funding:** When developing the new funding methodology for the QSFP funding, the Long-Range Planning Subcommittee may wish to discuss the following topics:
- The elimination of current statutory distributions of streambed and timber revenues
 - Will there need to be re-appropriation authority for this program, similar to 17-7-212
 - Might it be best to delay appropriations of timber revenues because of the uncertainty of collections
 - Given the uncertainty of the revenue streams recommended for the program, would it be advisable to develop a reporting method to track project progress and funding and to avoid the accumulation of unused appropriation authority

Glossary / Acronyms / Index



www.leg.mt.gov/css/fiscal



Glossary

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.

Budget amendment – See “Budget Amendment” below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary – An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

Appropriation Transfers (also see “Supplemental Appropriation”) – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House;
- The President of the Senate for the Senate
- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period.

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 – The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each \$1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

Capital projects fund – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.

Fiduciary funds – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services – Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.

Internal service funds – Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

Acronyms

AES	Agricultural Experiment Station	LAD	Legislative Audit Division
ADP	Average Daily Population	LEPO	Legislative Environmental Policy Office
ANB	Average Number Belonging (K-12 education)	LFA	Legislative Fiscal Analyst
ARM	Administrative Rules of Montana	LFC	Legislative Finance Committee
BASE Aid	Base Amount for School Equity Aid	LFD	Legislative Fiscal Division
BPE	Board of Public Education	LRBP	Long Range Building Program
C&A	Cultural and Aesthetic (Trust)	LRP	Long Range Planning
CC	Community Colleges	LSD	Legislative Services Division
CES	Cooperative Extension Service	MAC	Montana Arts Council
CHE	Commissioner of Higher Education	MBARS	Montana Budgeting, Analysis, and Reporting System
CHIP	Children's Health Insurance Program (also SCHIP)	MBCC	Montana Board of Crime Control
CIO	Chief Information Officer	MBMG	Montana Bureau of Mines and Geology
COPP	Commissioner of Political Practices	MCA	Montana Code Annotated
COT	College of Technology, followed by campus designation	MCHA	Montana Comprehensive Health Association
CPI	Consumer Price Index	MDC	Montana Developmental Center
DEQ	Department of Environmental Quality	MDT	Montana Department of Transportation
DMA	Department of Military Affairs	MHP	Montana Highway Patrol
DNRC	Department of Natural Resources and Conservation	MHS	Montana Historical Society
DOA	Department of Administration	MSDB	Montana School for the Deaf and Blind
DOA	Department of Agriculture	MSF	Montana State Fund
DOC	Department of Commerce	MSL	Montana State Library
DOC	Department of Corrections	MSP	Montana State Prison
DOJ	Department of Justice	MSU	Montana State University, followed by campus designation i.e. MSU - Bozeman
DOLI	Department of Labor and Industry	MUS	Montana University System
DOR	Department of Revenue	NP	New Proposal
DP	Decision Package	OBPP	Office of Budget and Program Planning
DPHHS	Department of Public Health and Human Services	OCHE	Office of the Commissioner of Higher Education
FCES	Forestry and Conservation Experiment Station	OPI	Office of Public Instruction
FMAP	Federal Medical Assistance Participation rate (Medicaid)	PERS	Public Employees Retirement System
FSR	Federal Special Revenue	PL	Present Law
FSTS	Fire Services Training School	PSC	Public Service Commission
FTE	Full-Time Equivalent	RIGWA	Resource Indemnity and Groundwater Assessment Tax
FWP	Department of Fish, Wildlife, and Parks	RIT	Resource Indemnity Trust
FFY	Federal Fiscal Year	SABHRS	Statewide Accounting, Budgeting, and Human Resources System
FY	Fiscal Year	SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
FYE	Fiscal Year End	SAO	State Auditor's Office
GAAP	Generally Accepted Accounting Principles	SF&C	Senate Finance and Claims Committee
GF	General Fund	SOS	Secretary of State
GSL	Guaranteed Student Loan	SSR	State Special Revenue
GTB	Guaranteed Tax Base	TANF	Temporary Assistance for Needy Families
HAC	House Appropriations Committee	TRS	Teachers' Retirement System
HSRA	Highways Special Revenue Account	TSEP	Treasure State Endowment Program
I&I	Interest and Income	UM	University of Montana, followed by campus designation i.e. UM - Missoula
IRIS	Integrated Revenue Information System		
IT	Information Technology		
ITSD	Information Technology Services Division		

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